

**AGENDA**  
**FREE MARKET PROTECTION AND PRIVATIZATION BOARD:**  
**Privatization Process Advisory Committee**

***Tuesday, April 29, 2014, 2:30 PM***  
**Copper Room, Senate Building**  
**State Capitol Complex**  
**Salt Lake City, Utah**

1. Call to Order
2. Committee Business/Minutes
  - a. Minutes (draft) from the March 26, 2014 meeting
3. Sequoia Consulting Group – Ken Murray and Anita White (via web conferencing or telephone)
  - Presentation and discussion of draft privatization process materials
4. Other/Adjourn

Next meetings:

- Tuesday, May 27, 2014, at 2:30 PM in Room 240 Capitol Building
- Tuesday, July 8, 2014, at 2:30 PM in Room 240 Capitol Building
- Tuesday, August 19, 2014, at 2:30 PM in Room 240 Capitol Building

These meetings will include web conferencing or telephone participation.

**Meeting Packet Contents**

<u>Page</u>	<u>Item</u>	<u>Source</u>
3	Minutes (draft) from the March 26, 2014 meeting	GOMB
5	Draft of Guiding Principles, Core Business Process, and Service Delivery Assessment Form	Sequoia

STATE OF UTAH  
FREE MARKET PROTECTION AND PRIVATIZATION BOARD  
**DRAFT OF GUIDING PRINCIPALS, CORE BUSINESS  
PROCESS, AND SERVICE DELIVERY ASSESSMENT FORM**

APRIL 29, 2014



**SEQUOIA**  
CONSULTING GROUP

## GUIDING PRINCIPLES FOR UTAH'S FREE MARKET PROTECTION AND PRIVATIZATION BOARD

1. The goal of this project is to develop a set of principles, assessment tools, strategies, and approaches that enables the State to:
  - Increase the quality and timeliness of services.
  - Improve the efficient and/or effective delivery of services.
  - Decrease the costs of services.
  - Protect the tax base of the State.
  - Broaden the revenue base of the State.
  - Further the overall mission and goals of the State.
  - Continue appropriate protection of the State's vulnerable citizens (e.g., children, elderly, disadvantaged, disabled).
  - Continue protection of data and information as required by State legislation and regulation, as well as Federal rules and regulations.
  
2. Privatization for the purposes of these project will be defined as alternative service delivery, including:
  - Contracting out or outsourcing--the government contracts with a private organization (whether non-profit or for profit) for the delivery of all or part of a service.
  - Public-Private Competition—governmental services are open to competition; the government may bid to continue to provide services, but must compete with other interested bidders.
  - Public-Private Partnership—governments may work cooperatively with private organizations (whether non-profit or for profit) to provide services.
  
3. In order to broaden the State's privatization approach, a comprehensive set of "privatization" reviews should consider at least the following strategies:
  - Using assets to increase revenues.
  - Improving efficiency, quality, and responsiveness of services.
  - Joint public-private financing and development of facilities and other infrastructure.
  - Enhancing the economic performance of government-owned and operated facilities.
  - Structuring public services to be more competitive, whether by contracting out or by having services structured to compete with private sector providers.
  - Using good business practices, such as enhancing cash management and restructuring debt.
  - Disposing of unprofitable government-owned "companies" or making them more profitable.
  - Shedding unnecessary services.

- Using vouchers for clients to purchase services from the private sector.
  - Granting authority to a private sector firm to provide services through a franchise.
  - Leasing equipment or facilities.
  - Removing or reducing regulations for private sector entities.
  - Providing services with volunteers.
4. In order to successfully implement a comprehensive privatization strategy, we agree that the following major lessons from our previous privatization efforts, or those of other governments, should be considered in the work of Free Market Protection and Privatization Board:
- Privatization decision-making needs an organizational and analytical structure and cannot rely solely upon political philosophies of Board members.
  - It may be necessary to recommend legislative and/or budgetary changes to encourage greater use of privatization.
  - Reliable and complete cost and performance data are needed to support privatization decision-making; therefore, the Board is working with Sequoia Consulting Group to assist in developing assessment and monitoring tools needed to analyze and implement privatization strategies.
  - Strategies may need to be developed for the transition to privatized service operations, including whether State employees will be allowed to bid, whether bidders will be required or encouraged to hire former State employees, etc.
  - Contract monitoring and/or project oversight will be vital elements for any privatized service or strategy.
  - It will be important that departments of State government realize that some policy options that are in the public's best interests may be contrary to the self-interests of the State departments.
  - It is also important that the State communicate with employees and make a commitment to fair treatment of those employees, as privatization strategies are investigated and implemented.

## CORE PROCESS FOR ALTERNATIVE SERVICE DELIVERY EVALUATION

In this section we outline the principal steps to be used in determining whether a given service, or set of services, is amenable to an alternative delivery strategy. The analysis of alternative services frequently uses the methodologies employed for internal risk assessment, performance management, and financial management. We integrate those methodologies in our recommendations for an evaluation process consisting of the following key steps:

1. Create a long-term assessment plan.
  - Critical point is that, in any organization, work that is outside of normal routine will not get done if it is not part of a prioritized plan.
  - Plan covering 3-5 year period, prepared by the Board with input from respective State departments.
  - Updated annually based on annual assessment plan and updated issues identification.
  - Includes both alternative service strategies and internal resumption strategies.
  - Starting point is the Board's inventory of government services.
  - Establishes priorities for service assessment based on preliminary analyses.
  
2. Prepare annual assessment plan.
  - Based on long-term plan.
  - Assessments distributed among Departments based on plan priorities, immediate issues, and departmental needs.
  - Each assessment led by Board staff, State purchasing staff, and departmental management liaison.
  
3. For each service, conduct a preliminary assessment.
  - Principal considerations for the preliminary review include: mission criticality, performance, perceived reward, perceived risk, and current cost.
  - Decisions should focus on services that represent low mission criticality, high perceived reward, low perceived risk, high costs, and low performance.
  - The following tables represent sample scoring matrices:

<b>Mission Criticality</b>	<b>High</b>	<b>3</b>	<b>1</b>
	<b>Low</b>	<b>4</b>	<b>2</b>
		<b>Low</b>	<b>High</b>
		<b>Current Performance</b>	

<b>Perceived Reward</b>	<b>High</b>	<b>4</b>	<b>3</b>
	<b>Low</b>	<b>2</b>	<b>1</b>
		<b>Low</b>	<b>High</b>
		<b>Perceived Risk</b>	

<b>Mission Criticality</b>	<b>High</b>	<b>3</b>	<b>2</b>
	<b>Low</b>	<b>4</b>	<b>1</b>
		<b>Low</b>	<b>High</b>
		<b>Perceived Risk</b>	

<b>Current Cost</b>	<b>High</b>	<b>4</b>	<b>2</b>
	<b>Low</b>	<b>3</b>	<b>1</b>
		<b>Low</b>	<b>High</b>
		<b>Current Performance</b>	

- Mission Criticality can be determined by a combination of the Board’s service inventory as well as a prioritization survey of the management of the respective department.
- Current Performance should be based on the State’s performance measurement system, to the extent possible. If the State does not collect performance metrics for a specific service, then the respective Department will need to self-assess its performance in conjunction with the State’s Performance Assessment team.
- Perceived Reward can be identified using the detailed service assessment form included with this report.
- Perceived Risk can be identified using the detailed service assessment form included with this report.
- Current Cost is based on a two to three year assessment of actual expenditures, not budget. A determination of high cost can be based either on comparable costs for similar services or the degree of cost increase over several years relative to the State budget.
- Services which have the higher assessment scores are those which would appear to be most amenable for alternative service delivery. Based on the number of services and staff availability, the higher priority services will undergo more detailed analysis based on the review elements spreadsheet.

4. Conduct detailed review based on attached spreadsheet.

- Convene assessment committee, recommended to include a member of the Board, Board staff, a representative of State Purchasing, a representative of the State’s legal staff, and two representatives of the respective Department.
- Complete assessment spreadsheet.
- If the assessment achieves a certain score (to be determined), then prepare an alternative service delivery plan that addresses each category of the assessment, including a plan to ameliorate any perceived problem areas and an implementation plan.

- Prepare detailed cost assessment plan based on cost accounting methodology.
  - If plans include potential for managed competition, identify potential bidding issues that would be an impediment to fair competition, develop alternative strategies, and secure purchasing and legal approval for changes.
  - Review assessment and plans with Board and respective Department management.
5. Draft performance contract for use in Request for Proposals
- Designed to establish specific quantifiable, objective performance standard for a vendor
  - Provides for regular evaluation and approval of service delivery, performance correction, compensation, and termination procedures
6. Implement appropriate State procurement procedures.

### ELEMENTS OF REVIEW

In this section we illustrate the elements to be reviewed in a privatization review process.

#### Elements of Review

Element	Notes	Points
<b>General Elements</b>		
1. Is the service being reviewed considered a mission critical service of Utah State Government?		
a. Is there legislation requiring that the service be provided?		
b. Are there other legislatively established requirements that need to be considered in this review?		
2. Do other alternatives exist for providing this service?		
a. Is the service available in the private sector?		
b. Is the service available from another government?		
c. Is the service available from a non-profit?		
d. How many vendors/governments could provide this service?		
e. Would there be a way to have this service become a public-private partnership?		
3. How would the State replace a provider if costs or performance proved unsatisfactory?		
4. What is the expected level of political opposition to privatization of this service?		
a. How could that opposition be addressed?		

Element	Notes	Points
<b>General Elements (Cont.)</b>		
5. Has this service been successfully privatized by other state or local governments? By the Federal government?		
6. Are there any known legal barriers to privatization ?		
a. What is the assessed difficulty of changing these legal barriers?		
7. Are there any obvious risks to be considered with the privatization of this service?		
a. Does the service assist a vulnerable population (children, elderly, disadvantaged, disabled) that could be negatively impacted?		
b. Does the service utilize or maintain data which is vulnerable to hacking or inappropriate use that could lead to liability issues for the State?		
c. Are there other liabilities associated with this service which need to be considered?		
d. Are there ways to address and mitigate the identified risks?		
e. What are the estimated costs of risk mitigation?		
8. Does a vendor need access to confidential information?		
a. Does the State feel comfortable with a vendor having access to this confidential information?		

Element	Notes	Points
<b>Performance Elements</b>		
1. Does this service currently utilize quantifiable and measurable performance measures?		
a. How does State performance of the service currently measure up? Are there accessible comparables?		
b. Does State performance of the service appear to be of high quality and timeliness?		
c. Do State costs for this service appear to be reasonable?		
d. Are there recent financial audit-identified issues?		
e. Are there recent performance audit-identified issues?		
f. Are there any documented customer service issues?		
g. Are there unmet maintenance issues for this service which could be avoided through privatization?		
h. Are there specialized personnel needs that could be better met through privatization?		
i. Are there specialized equipment or supply needs that could be better met through privatization?		
j. Have State staff been seen as providing a high level and quality of service?		
k. If there are no current performance measures, what performance measures should be used? How hard will it be to develop these measures?		
2. How difficult would it be to assess the performance of the privatized service?		

Element	Notes	Points
<b>Performance Elements (Cont.)</b>		
3. What level of risk would be involved if a privatized service did not meet required performance requirements?		
4. Would the State be able to transfer liability to a service vendor in the case of poor performance?		
5. Would the State be able to reward or penalize any vendor for performance?		
6. How difficult would it be to construct a performance contract for this service?		

Element	Notes	Points
<b>Cost Elements</b>		
1. What are the current costs for providing this service?		
2. What percentage of these costs is fixed?		
3. What percentage of these costs is variable?		
4. How does State service cost compare with privatized costs?		
5. How difficult would it be to monitor service costs for a privatized service?		
6. What are the estimated costs of contract development?		
7. What are the estimated costs of contract monitoring?		
8. What impact would privatization have on tax revenue?		

Element	Notes	Points
<b>Cost Elements (Cont.)</b>		
9. What are the estimated costs of employee lay-offs, if this service were to be privatized?		
9. Are other State departments paying a part of this service?		
a. If yes, would other departments be able to buy services from another vendor for the same or less?		
10. Does the current State service have excess capacity that could be sold due to any privatization arrangement?		
11. Does the current State service operate any facility(ies) that could be shed due to privatization?		
12. What staffing costs could be eliminated due to privatization?		
13. What staffing costs would remain in the case of privatization?		

Element	Notes	Points
<b>Staffing Elements</b>		
1. What are the potential impacts on State employees?		
a. How many employees are involved in the service privatization?		
b. Would/could a privatized service provider be asked or required to employ State staff?		
c. How many jobs face elimination?		
d. How many requirements would the State pass on to the vendor in the way of labor laws, benefits, etc.?		
e. What would be the financial impacts of requiring the hiring of State employees? Of passing on labor law or benefit requirements?		
f. What staffing would remain and what would be the costs?		
<b>Summary</b>		
1. How comfortable would you feel in privatizing this service?		
2. Do you think service quality will improve? Or should improve?		
3. Do you think costs will decrease? Or should decrease?		
4. What form of Alternative Service Delivery seems to best fit this service? (see glossary)		
5. Are there other issues which cannot be scored but need to be considered?		

## GLOSSARY OF ALTERNATIVE SERVICE DELIVERY STRATEGIES

The following are the major alternative service delivery strategies available:

1. **Contracting Out or Out-Sourcing:** this is a common strategy, which includes writing a contract with a private entity (for profit or non-profit) to provide a service or set of services previously provided by the State, usually using State employees.
2. **Public-Private Competition:** this strategy includes allowing State employees to compete with private entities (for profit or non-profit) to provide a service or set of services previously provided by the State. It is possible to have any private sector entity consider the hiring of State employees who previously provided the service, should a private sector entity “win” the competition.
3. **Public-Private Partnership:** this strategy is a voluntary partnering between the State and any private sector partner to cooperatively provide a service or set of services. This strategy could include joint public-private financing and development of facilities and other infrastructure.
4. **Using Assets to Increase Revenues:** this strategy usually includes working with a private sector partner to develop additional uses for assets that assist in increasing revenues to the State. Another aspect of this strategy would be working with a private sector partner to develop methods for gaining additional uses for any excess capacity related to facilities or other assets. A State agency could also provide ways to utilize assets and excess capacity to increase State revenues.
5. **Improving Efficiency, Quality, and Responsiveness of Services:** any activity that allows/encourages State staff or departments to improve services, particularly at reduced costs.
6. **New/Expanded Use of Good Business Practices:** any activity that enhances State finances/revenues and reduces costs could be included in this strategy; for example, enhancing cash management and restructuring debt are usually considered examples of this strategy.
7. **Disposing of Unprofitable Government-Funded Activities:** this strategy is often referred to as shedding government owned companies (services that are operated as businesses, such as utilities or golf courses) or as making these companies more profitable.
8. **Shedding Unnecessary Services:** this strategy is much like disposing of unprofitable government-funded activities; however, the focus is less on cost and more on the lack of use of a service or the lack of mission criticality of the service.
9. **Use of Vouchers for Clients to Purchase Services from the Private Sector:** this strategy allows the State to issue vouchers as a way to avoid providing the service or set of services and to utilize services already available in the market place.
10. **Leasing Equipment or Facilities:** this strategy allows the State to avoid major purchases when leasing is a less expensive option.
11. **Removing or Reducing Regulations:** this strategy encourages private sector businesses to develop or expand by eliminating excessive State regulation of business.
12. **Providing Services with Volunteers:** this strategy is a form of public-private partnership which utilizes volunteers.