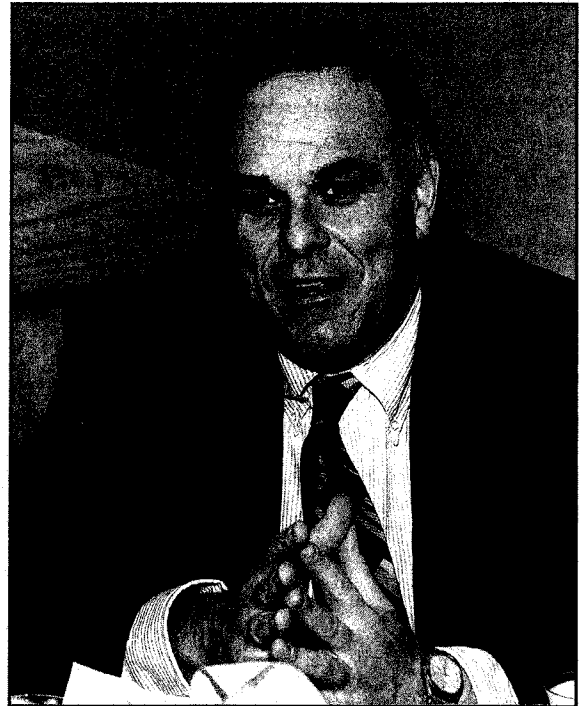


Carnegie Council Privatization Project

Privatization: It Can and Does Work



The Honorable
Edward G. Rendell
Mayor,
The City of Philadelphia



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Privatization: It Can and Does Work

January 19, 1994

The Honorable Edward G. Rendell

I am glad to be here this morning because privatization is very important subject for America. It is important to understand what privatization is and what it is not; what it can do and what it cannot do. It is not a panacea for the problems facing a major urban center. It will not cure all your problems. You cannot take the magic wand of privatization out of your back pocket, wave it, and have all of the problems of a big city go away. It simply won't do that. Nor, on the other hand, is it anti-worker, anti-black, or anti-union. It is not all that some of its most ardent proponents would tell you it is, and it certainly isn't anything close to what its most ardent detractors would tell you it is. It can be an extremely useful vehicle for saving money, for improving the quality of service delivery to the citizens of your city or political subdivision, and most of all, if done well, it can bring a little bit of vibrancy and life to your government. Let me tell you a little bit about how I arrived at the conclusion that privatization should be an important part of our efforts to restructure government in the City of Philadelphia.

I ran for mayor and lost in 1987 and I was relatively prepared for that race, but in some ways it is actually good I lost, because in the next three years I came to the conclusion that I still wanted to remain in elective politics. I did an assessment, and, notwithstanding the newspapers concluding that I was dead as a political entity, I made the calculation that I had one more shot and I further calculated both from an elective standpoint and from a governance standpoint that if I did have one more shot I was going to be prepared for it in the very best way possible. I technically practiced law for a big law firm from 1987–1990, and I was fortunate that I got involved in a class action suit and flew for depositions all over the country, and on those trips I and a small group of people started to study government. We never got outside the boundaries of North America—it probably would have been instructive if we did—but I started to study government, not just looking at privatization, but look-

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ing at everything because the old saying that there are no new ideas is probably correct 95 percent of the time, and I wanted to see what other governments were doing right and what other governments were doing wrong. So when I'd be taking a deposition in Phoenix, I'd find time to knock on the door of the Office of Management and Productivity in Phoenix. When I was in Newark for a deposition, I looked up former Mayor Gibson, who was one of the first mayors in America to privatize some of the functions of city government. I would speak to a lot of people and as I looked at things, I decided that privatization could help us achieve the three goals that I mentioned: lower cost, better delivery of services, and introducing incentive into

the process of government. I realize that municipal government is different in every city. People are always asking me what lessons there are for New York mayor Giuliani in what we've accomplished in Philadelphia, and there are some lessons but they

are not automatically transferrable. We have different political contexts, different laws, different union traditions, and different history.

I knew a little bit about city government because as district attorney I was a city official. Although independently elected, my work force was governed by the same labor agreements and civil service rules and regulations as the entire municipal work force was. What we had done in Philadelphia in the name of reform back in 1951, was that we put in the city charter an anti-corruption system. Corruption had been the hallmark in the City of Philadelphia through the late thirties and forties and early fifties and we were so bound and determined to absolutely eliminate any possibility of corruption that we created a civil service system which took any element of incentive away from the work force. Absolutely took it away. We created an incentiveless work force.

Philadelphia has been governed by Democrats since 1951, the same time as the new charter came in. I'm a Democrat and

proud of it, but the Democrats had become, to a great extent, hostage to the municipal unions and we essentially had labor peace in Philadelphia for forty years, but we had this peace at a heavy cost. I inherited a huge deficit of about \$250 million on an operating budget of \$2.3 billion; so a 10 percent deficit, which is the equivalent of New York having about a \$3 billion deficit. Our deficit was due to accumulate to \$1.6 billion in the next three years, had I not done something. We also inherited a system where our workers got 55 cents in benefits for every one dollar in salary. I don't know if you are aware of what your firms pay, but in the private sector in Philadelphia firms pay somewhere between 26 and 28 cents in benefits for every dollar of salary, and even in other political subdivisions and governmental entities in Philadelphia, it was in the low forties or mid-forties at the very worst. We are now down to the high thirties. I won't tell you the whole story because we are here to talk about privatization, but six months into my term in office we negotiated labor contracts with significant concessions from the unions in the benefits packages which reduced them from 55 cents per dollar to 39 cents. In four years alone we saved over \$300 million in health care cost reductions, eliminated plural paid holidays and one quarter of our sick days, changed our disability system that allowed all sorts of rampant double dipping, did a lot of revamping of the benefits package, and also negotiated a 33-month wage freeze, so we were able to roll back a lot of the costs of government. Then we looked at every facet of what we did on the management and productivity side and wound up, in 18 months, eradicating what would have been a \$450 million budget deficit. We eradicated it and came up with a \$3 million surplus without one additional dollar in increased taxes. And it was easy. That was the funny part. When we made those savings by continued productivity and management efforts in my first two budgets, those savings

had to be plowed back into dealing with our crippling deficit. Now we can take those savings and plow them back into more effective government and it's really exciting. During the first two years, managers and everybody else went ahead and did their job because we rode them very hard, but they did it without a lot of smiles and now for the first time a lot of them are smiling.

“There's juice back in the government again. People just don't sit around and say, ‘How are we going to get through the week?’ They sit around and say, ‘We better shape up or we're going to wind up being the next to go.’ We have privatized sixteen functions in two years, and we produced annualized savings of about \$22 million from those sixteen functions.”

The best part about privatization is that it helps us to get to a system laden with civil service rules, regulations, and labor practices that had totally taken incentive out of the government. Pretend you're a city worker, and you know that no matter what you do on the job, it will not affect your performance, and as long as you achieve a satisfactory rating, your performance has nothing to do with whether you get a promotion or whether you get a raise in salary. That is done purely by either civil service or union negotiated steps. So you know that your supervisor has no control whatsoever over your future. By the way, under the past system if a supervisor gave you an “unsatisfactory” rating you had the right to go through a grievance procedure which had 47 steps and required the supervisor to file 29 pieces of paper. So short of taking an Uzi and gunning down three or four of your coworkers you would not get an “unsatisfactory” in the City of Philadelphia. I'm happy to say we changed that system and now it only takes nineteen steps and seven pieces of paper.

Past labor practices were also absurd. The unions controlled scheduling, among other things. Fortunately, in our concessionary contract we shocked the unions by coming up with a whole series of what we call “management rights.” The unions had been used to that—government had been putting forth management rights for 20 years—but what the government used to do was as soon as they reached an agreement on economics, they just folded on management rights. We reached an agreement on economics and the union said, “Good, the strike is over” but we held firm on management rights, and that was very important.

But having said all that, what privatization has done is it has put incentive back into our government because every worker and manager—because when we privatize a function, it's not just unionized workers who lose their jobs, it's managers as well—are now starting to talk to each other, and they're starting to make giant productivity improvements on their own which are not forced upon them from the top. They are coming up with good ideas to cut costs, and they are making concessions on



Bob Huber (left), press secretary to Mayor Giuliani, and Don Kummerfeld, president, Magazine Publishers of America.

some things that we didn't even achieve in contract. There's juice back in the government again. People just don't sit around and say, "How are we going to get through the week?" They sit around and say, "We better shape up or we're going to wind up being the next to go." We have privatized sixteen functions in two years, and we produced annualized savings of about \$22

"We've increased our revenues by \$42 million a year on an annualized basis by just collecting taxes better. Ryan Sandberg of the Chicago Cubs came into Philadelphia last year for eight days of work. He makes \$7.5 million a year and nobody bothered to take his wage tax out. Well, we do now and from athletes alone we've collected an additional \$1.2 million in taxes."

million from those sixteen functions. Some of them are pretty small, but in every one of those functions there has been a discernible improvement in the delivery of service. Will that improvement stay? As you know, one of the knocks against privatization is that the private vendor will give you a great deal the first time and service will be great during the first contract term, but as soon as they get the second contract signed, service is going to go to pot and then when they've got you—after you've sold all your equipment—they're going to just raise the price and keep on raising it. Well, that is a possibility. But the first rule is that you've got to have good management oversight. You have to manage your employees, and you have to manage your vendors. When I came into office, I found that pretty much every vendor that dealt with the City of Philadelphia was ripping us off, either intentionally or unintentionally. Unintentionally because they knew that we had no oversight and so they were sloppy with our contract. To give you an example, we have what is called the Parking Authority. Don't ask me why (I'm trying to privatize most of what we do in the Parking Authority), but we own garages, parking lots, on-street parking, meters, and enforcement. As a result we carry a lot of insurance, both property and collision insurance, as well as workmen's compensation. Before I became mayor, the favorite local broker of the mayor, either a relative or big donor, would just be told, "Go out, find a national company that's going to write this insurance and come back and we'll sign a contract with you," so you got whatever price you got.

We decided, in line with the whole spirit of our government, to inject competition into this, so we picked the *three* favorite brokers of the mayor and told them to bid and the good news is we saved \$1 million in the new contract! But the startling news was the incumbent who held the contract had the good sense to bid, and he reduced his bid from the previous year by three quarters of a million dollars. Now, you know the current bid that he filed wasn't a bid he was going to lose money

on, because he wouldn't have filed it otherwise, so he had been gorging himself on three quarters of a million dollars above a reasonable profit margin. Of course we were a fatted calf.

We renegotiated every single lease we had because in Philadelphia we have a very depressed real estate market and I found we could achieve substantial savings. For example, my second month in office, the head of our Office of Management and Productivity literally came rushing into my office and said, "We've got to make a decision. Our Department of Human Services has been in a building for the last eleven years and our lease rolls over every year with a thirty-day notice period not to renew." It rolls over and there's a 9 percent kicker in it, and we're paying \$33 a square foot. In One Liberty Place, the tallest and one of the most beautiful buildings in Philadelphia, you can get space for about \$17 a square foot. So I said, "Break the

lease. Tell them they'll have to renegotiate with us and we'll sign a four-year or five-year lease." We ended up signing a five-year lease at \$8 a square foot. The very best price control you have is when that four-year contract rolls over, you bid it again and you not only have the incumbent bid, but you bring other people in to bid as well, and you keep the public sector workers in the competition.

The other thing we have done is we have set up a system on privatization where we will put out Requests for Proposal (RFPs), then we determine the level of interest, and then we'll put out a bid, and we have the power under our charter to reject all the bids if we want to. So we'll take the bids and we will mentally choose the vendor we want and then, as I promised during my campaign, without telling the union the name of the company or the vendor, we give the union the bid. We have to do that because in the contract where we won the right to privatize, we have to demonstrate that it will be economically beneficial for the citizens, so we have to show the unions all this information. We show it to them and say, "Have a crack at it. If you can structure a proposal using public workers that comes close to this bid—you don't have to match it, but if you can come close—we'll keep you." We've given them 16 proposals and they are 0 for 16. It is only recently that they have gotten serious.

We've also told them that after we privatize, the next time the contract is up, you're going to be a bidder. You're not going to have the last chance, as you do now, but you're going to have the right to bid, and they've done this in Phoenix and it has worked very well. In Phoenix they privatized their trash collection. A private company had it for four years, the unions got together, came back four years later after having made all sorts of changes in work rules and salary structure, and they won the bid back. Not only are they doing it more cheaply but I'm told they're doing it very well, at a much higher level of quality than they did in the past, because in the past they never thought they'd lose it. Now they know they lost it and they want to keep

it, so when they pick up that can and throw it in the truck, if a couple of things fall on the ground—you know, ten years ago in Phoenix they may have just said, “Ok, let’s move on, guys.” Now they stop and pick it up because they know the next time the contract comes up, private companies are going to be banging heads. You can’t do this with every function, but Mayor Gibson told me he took the City of Newark and literally drew a line in the middle—privatized collection on one side of the line, kept the city workers on the other side of the line—and he said it works marvelously. He gets great trash collection and prices on both sides, because the unions know it is a snap for him just to extend the private company the rest of the line if the unions give him any trouble, and the private company knows there is still enough capital equipment on the other side so it wouldn’t take much for the union workers to come over and take the rest of Newark. Competition is crucial.

There are departments that, truth be told, we have no intention of privatizing, but the people in them are still sitting down and planning how to do things better because privatization has been injected into the process. We’ve also tried to do some positive things to build incentives. A lot of government departments will tell you, “We need capitalization, we need new software equipment, we need this and we need that. If you could just give us the same amount as was in last year’s budget, that would be great because we know we can’t get any additional dollars to get the things we need.” So we established something that we call the Productivity Bank. We took \$25 million, a line item in our budget from last year, and our departments can borrow money from the Productivity Bank. We have a loan committee made up of managers called the Office of Management and Productivity, and what the departments have to tell us and demonstrate to the loan committee is how borrowing X will produce at least two times X in savings on an annualized basis within four years. If they don’t produce those savings, they have to pay

“There is no ideology in local government. I am a garden variety liberal on social causes, and proud of it, but there is no liberal answer to picking up the trash.”

it back out of their budget. If they produce savings greater than two times X , up to two the general fund gets; above two they get to keep in their department. So not only do they get the initial capitalization to buy the software they need to do a better job, but if it saves more than two times what it costs initially, they get to keep that and roll it over into some other thing they need for their department.

What have we privatized? I’m not going to list all the functions for you, but in a lot of our buildings we’ve privatized custodial services which are one of the easiest things to privatize. When I was running for mayor one of the symbols that I used in my campaign was I would say to a group like this, “How many



(Left to right) Ambassador Emilio Cardenas, ambassador of Argentina to the UN; president Brian O’Neill, senior vice president, The Chase Manhattan Bank; Mayor Rendell; Duncan Campbell-Smith, New York bureau chief, The Economist.

of you have been down to City Hall lately?” A lot of people have reason to go to City Hall—a lot of people pay their bills there—and so half the crowd would raise their hands. And I’d say, “What does it look like? What does it smell like?” And in truth, City Hall was filthy, trash ridden, dark, dingy, dirty, it smelled like urine and it was a disgrace. So I said, “Look, that’s more than a symbol. It tells the citizens if we, the government, can’t keep our own home decent, how can we do anything else? I promise you that if I’m elected mayor, we’re going to clean up City Hall. We’re going to paint it, we are going to brighten it, we are going to make it clean as a whistle, and maybe we can’t get it to smell like roses, but it sure as heck can smell clean.” Two months after I became mayor, we had a City Hall clean-up. I invited citizens to come down and clean up the building. Two thousand citizens painted and scrubbed and it was a great experience and then two months later we privatized the custodial work for City Hall and the turnaround is absolutely incredible.

The building looks great and the floors shine.

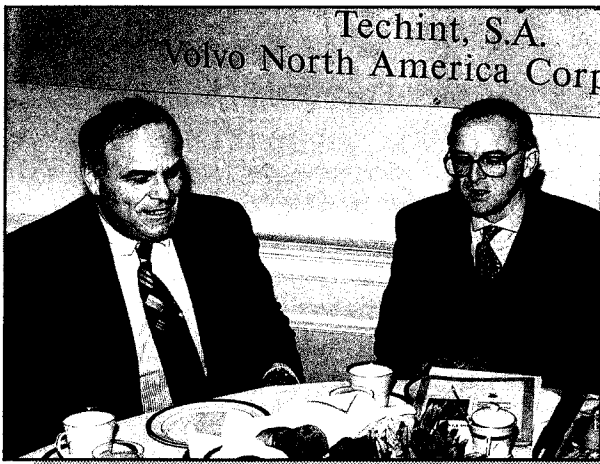
We had a warehouse where we would warehouse office supplies. You can imagine what that did. It meant that if you ran out of yellow pads, you’d have to order from the warehouse and it would take somewhere between two and three weeks to get the yellow pads, because of the forms and the requisitions and the different people to transport it, etc. We got rid of the warehouse, and hired a private company and they deliver what we need department by department. You don’t have to wait for mass orders any more. If we need yellow pads, we call up at nine in the morning and have our yellow pads by three in the afternoon. As simple as that.

We also privatized our trash transfer stations, and our sludge build-up. We haven’t privatized the water department, except for the sludge removal. Sludge has a tendency to build up and over time it was killing us. So we just privatized collection and removal of the extra sludge from our treatment plants, and we save a \$1 million alone just by doing that.

We had a museum called the Port of History Museum,

which was used for some exhibits and was related to the history of Philadelphia. Seventeen people bought admission tickets to the museum before we privatized it. Granted there were some exhibits for free which people came to, but *seventeen* people bought tickets. I thought that was a good indication that the museum ought to go, so we have leased it for \$1 for the next 100 years and now it is called Maritime Museum. The new owners are spending \$12 million of their own money, we're giving them \$6 million of our money, and they're going to build it into a fabulous tourist attraction.

Almost all of our tax collection is privatized out and it is an enormous success story. One of the things I told Mayor Giuliani is, you can't miss—just collect taxes better. Guaranteed that the City of New York isn't collecting nearly what it



Mayor Rendell (left), speaking with Duncan Campbell-Smith, New York bureau chief, The Economist.

should be getting in taxes. We've increased our revenues by \$42 million a year on an annualized basis by just collecting taxes better. It was stunning the people who weren't paying taxes in Philadelphia. Doctors and lawyers that had offices outside the city, but practiced in our courts and our hospitals, never paid a nickel of taxes. We found a doctor whose practice supposedly was in Montgomery County, who didn't "do business in the City of Philadelphia," but he managed to find his way into one of our eye hospitals two days a week, forty weeks a year and performed seven cataract operations a day. Anyone want to take a guess on the gross on that? \$2.2 million and he didn't pay a nickel in taxes. He does now. We also had lawyers who would routinely come in from the counties and win multimillion dollar lawsuits in our courts, and they didn't pay a nickel in taxes. Well, they do now. The one that made the news was the athletes. We had athletes who would routinely come into Philadelphia, earn a good portion of their salaries and not pay a nickel in taxes. Five years ago, members of our baseball team (the Phillies), who paid non-resident wage taxes took the city to court because they claimed their games were on the road, so the wage tax should only apply to the games they play at home, because they were earning other money outside the city. The court ruled in their favor, and all of our home sports teams immediately stopped paying half of the

wage tax. But nobody thought about the corollary of that. The corollary of that is if the Phillies shouldn't pay Philadelphia wage taxes when they are playing baseball in Chicago against the Cubs, when the Cubs are playing baseball in Philadelphia, *they* should be paying the wage tax. Ryan Sandberg of the Chicago Cubs came into Philadelphia last year for eight days of work. He makes \$7.5 million a year and nobody bothered to take his wage tax out. Well, we do now and from athletes alone we've collected an additional \$1.2 million in taxes.

I also looked at vendors who did business with the City of Philadelphia, and eighteen percent of them didn't have business privilege licenses in the City of Philadelphia and paid no business taxes. People we were routinely giving checks to for doing work for the city were paying no taxes! Well, they do now. There's no rocket science to all this. I had an argument with my Tax Collections Department, which said they needed sophisticated software to catch businesses doing business in the City of Philadelphia. I said, "Has anyone looked in the Yellow Pages?" They looked at me like I was crazy. I said, "You know that there is a Philadelphia Yellow Pages, but there's also a South Jersey Yellow Pages, Bucks County Yellow Pages, Delaware County Yellow Pages, and Montgomery County Yellow Pages. Open the Yellow Pages to any page, and find me a business that's advertising here that has its home office in Montgomery County. The fact that they took the step to advertise in the Philadelphia Yellow Pages as opposed to the suburban Yellow Pages or the South Jersey Yellow Pages means they are consciously doing business in the City of Philadelphia. You have them legally, just go audit them to find out how much business they did."

I want to close by giving you one graphic example of privatization—the Philadelphia Nursing Home. Politically, I'm willing to take all the fallout for privatization. Privatizing was a key issue in the campaign; I was the first Democrat to lose the endorsement of our municipal unions—they endorsed the Republicans who, oddly, were against privatization—and I'm willing to take the political fallout. But we have a City Council that has to approve every single outside contract above \$10,000, so I had to get the majority votes in City Council and that was difficult. The way we did this was to design a system which has a couple of basic elements to it. One, any time we privatize a city service, those city workers, when applicable, will get any city job that's open. So if you were a city worker who lost your job doing a certain function, but there were openings in another function and you were trainable, we would put you into that function. For example, we privatized Prison Health Services and 47 people lost their jobs. Of those 47, all got city jobs, and 22 were eligible to become corrections officers—we had to hire more corrections officers—and they got \$7,000 salary increases. So, there are some municipal workers that don't think privatization's all that bad an idea, and up until the Philadelphia Nursing Home we were able to offer jobs to any of those who wanted other city jobs, so they kept their city employment.

But, Philadelphia Nursing Home (PNH) was our big problem. We had a staff of well over 400 serving 313 patients. We

ran a subsidy on the nursing home of \$9 million a year, while our ten district health centers served 275,000 patients three times a year, for almost a million patient visits, and our subsidy for the ten district health centers is \$9 million—a slight hint that the nursing home was somewhat inefficient and ineffective. The nursing home had to go. We bid it out. We could have saved about \$7 million a year on that contract, but we didn't save that much money, because to save the whole amount, we would have had to give the private owners the right to take any patient mix they wanted, and they would have taken mostly reimbursable patients. Our nursing home has served some reimbursable patients, but it's always been a safety net for patients who have no level of reimbursement. The private vendor immediately expanded the nursing home to 500 beds, so it's serving more people, but we made a deal that 20 percent of those beds have to be reserved for unreimbursable people. It knocked our savings down from \$7 million a year to about \$3.8 million a year, but that's a political judgment you make. We made the right decision, and we're still saving \$3.8 million a year. But because all of a sudden this was almost 300 people out of jobs, our luck had run out in finding everybody city jobs. Then the second part of our program kicked in, which is that we will not privatize unless the vendor will agree that to the extent that they hire more workers,

they have to take city workers unless there is cause shown not to. We negotiated with the vendor between the employees we could put into some other city jobs and the vendor's willingness to take the old PNH work force and keep them at existing salaries. They could not keep them at existing benefits, so the benefits package went down, but everyone kept their job at their existing salary. If you were within a year of vesting your pension or within a year of your retirement age, we worked out a deal with the vendor where we kept the person on the city payroll and they reimbursed us for his or her salary, so that people close to reaching pension age could stay with us until they vested their pension. So we've done this in as humane a fashion as possible, and it has eliminated any criticism in City Council. Out of a City Council of seventeen, we've had our contracts approved with a minimum of fifteen votes. Privatization was an argument which, during the campaign, literally caused fist fights among private and public unions, but it has gone through smooth as a whistle without any controversy or any real bloodletting. I'm not saying everybody loves it, and everybody believes in it, but it is certainly a very important step in modernizing, restructuring, reinventing, rightsizing, downsizing—whatever name you want to use—it's a very important step in government efficiency. ■

Questions and Answers

Q I was wondering what some sources of information and inspiration have been as you've developed these programs you have been discussing. For example, what was the inspiration behind the Productivity Bank?

A I hate to say this, because I said that there are no new ideas, but the Productivity Bank was our idea. If you want to look at progressive cities in terms of what they've done, Phoenix has been a leader; Baltimore has been good in many respects; and Chicago. Mayor Daly has done a lot of terrific things. I spent about four hours with him the year before I became mayor and a lot of great ideas came from the meeting. Here's a simple one; so simple it's like the nose on your face. Have you ever been to a parade in the City of New York or any city for that matter? You go to a parade and you will see tons of policemen. Once in a while you have a parade with maybe a demonstration or something, but most parades are Pulaski Day parade, the Hispanic Festival, the Israeli Independence Day Parade; now who in God's name is going to demonstrate during those parades? You don't need a ton of policemen, and you certainly don't need mostly City of Philadelphia police at \$35,000 salary and \$18,000 in benefits on the job. Mayor Daly said he basically privatized parades and hired very few private security people, and a few regular shift-hour traffic

cops. The city saved \$1.4 million on parades alone. There is so much out there and if you have the political will and the support and the backing to get it done, it's just easy. Indianapolis has a young man by the name of Steve Goldsmith, who is an outstanding mayor with creative ideas. Those are some of the cities that I got some of the inspiration from. In Cleveland there's a great young man by the name of Mike White who has done a lot of the things we have done; always looking for innovations and new ways to do things. I get accused at home of acting like a Republican, because of the fiscal conservatism and the management stuff, and I say, "There is no ideology in local government." I am a garden variety liberal on social causes, and proud of it, but there is no liberal answer to picking up the trash. There isn't. There is no conservative approach to employee benefits or disability or double dipping. There is none of that. There are a lot of good women and good men out there trying to innovate and trying to come up with some terrific ideas to make government work. New York is the toughest nut because all the problems and all the entrenchments that we had in Philadelphia are magnified and multiplied tenfold in New York, but it still can be done. It's not going to work in New York unless there is tremendous support in every segment of society for these initiatives, and it has to start with the

business establishments and the media, and then spread out through the neighborhoods. People in neighborhoods tried every trick in the book to stop us from privatizing; tried to stop us from negotiating a contract. But when I went around my first year as mayor and told people the level of benefits our city workers got, I had to stop them from rushing out the door to find the first city worker they could and thrash him. It can be done if everyone gets together and does it, and it needs responsible leadership. I think the Democrats here have got to act responsibly for the benefit of the City of New York and the people in New York—period—and worry about the next mayoral election three years from now. If they care about New York they've got to act responsibly and if the mayor has good programs and they're done in as humane a fashion as possible they've got to stand with him, because New York has run out of time.

Q To what extent did you have to go to Harrisburg to get changes in state law to allow you to do these things?

A None. We're home ruled, covered by our city charter. The only impediment I had was the fact that City Council has to approve every contract. But that was more of a political impediment than a real one. We negotiated, in a contract of July 1992, a clear right to privatize. Under the prior contract you could privatize but it was another one of these 99-step things and it would take six years to privatize any function. We had to dig our heels in and say, "You're not getting that contract, and you can stand and strike forever unless we have the right to privatize." But we do have to demonstrate that it's an economic benefit to the City of Philadelphia before we can privatize. The unions can challenge us. They chal-

lenged us on a number of our initiatives, but they didn't knock down any of them.

Q Do you have any responsibility under the Prevailing Wage Act, which states that private contractors have to hire employees at prevailing local wages?

A For the functions that we privatize we haven't had any Prevailing Wage Act problems. Mostly in the city, our wages are higher than the private sector's, but it's the benefits that matter more. Where you make your money on privatization is in benefits and efficiency. Just a quick example: trash collection. We haven't privatized trash collection because it is the one place where the unions have made millions of dollars worth of changes internally because privatizing trash collection would mean a thousand workers would lose their jobs and they really don't want that and they have been terrific in making changes. The private haulers in Philadelphia are all unionized. Prior to the new contract our workers got 20 sick days and our trash collectors averaged taking 17.8 of these per year. The explanation of the prior streets commissioner was, "Of course they take more than anybody else, they are out there in that bad weather and they get colds, etc." That held up until some enterprising reporter did a study of the local haulers who happened to be Teamsters, who have four sick days with a buy-back, which means they can get money if they don't take sick days, and those Teamsters averaged 1.2 sick days a year, out in that same weather. Maybe the Teamsters are a little hardier breed by nature, but you can imagine the difference between 17.8 sick days and 1.2 in terms of efficiency. So, no, prevailing wages has not been a problem for us.

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