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# Privatization

## Public Services and the Private Sector

Should "public" services be produced by government—or by the private sector?

This issue is generating growing interest nationwide among states and local government officials, especially in the cities. In the wake of taxpayer revolts and retrenchment at the federal level, many municipalities have faced a fiscal crunch. They have begun searching for alternative ways of delivering services, and one of the most popular alternatives is privatization.

Privatization is a new word that means transferring the production of a service—and sometimes other aspects as well—to the private sector.

### Forms of Privatization

The most common form of privatization is contracting, in which a government contracts out the production of a service to a private firm while retaining the responsibility for planning and financing the service. The most radical form is full privatization, in which a government ends or phases out its provision of a service entirely, leaving the field open to private

firms, nonprofit corporations or civic groups.

Other forms of privatization, involving the use of franchises, subsidies and vouchers, fall somewhere between contracting and complete privatization in their degree of reliance on the private sector for service provision.

Government contracting with private companies is not a new practice, but it appears to be growing in popularity. More and more services are being considered for privatization.

### ICMA Survey

The International City Management Association in Washington, D.C., surveyed 1,780 local governments nationwide (1,433 cities and 347 counties) between March and June 1982 to find out how many were employing alternative means of delivering services, i.e., means other than the exclusive use of government employees.

In a special report on the survey titled *Rethinking Local Services: Examining Al-*

*ternative Delivery Approaches*, the ICMA defined seven alternatives: contracts, franchises, subsidies, vouchers, volunteers, self-help, and regulatory and tax incentives. (See table on page 2 for percentages of survey respondents that reported service provision by these alternatives.)

### About This Report

Although President Reagan's New Federalism proposals didn't get very far in the Congress, the basic idea of shifting emphasis from the federal government to state and local governments has taken root. The spotlight is increasingly on the state and local scene.

As the federal government scaled back some of its aid programs, many state and local governments faced a fiscal crunch, especially states like California and Massachusetts where voters had approved property tax limitations.

One way of cutting costs that has received growing attention is the use of the private sector to produce government services. Using such methods as contracts, franchises, and subsidies are not new, but there are some indications that they are being employed for a wider variety of services.

Terry Peters, one of the League's research analysts, has been monitoring developments in this area, and in this issue of *Analysis* he provides an overview of the privatization trend.

JARED E. HAZLETON  
President

## TRL 1984 Annual Meeting

- Austin Hyatt Regency (reservation cards will be sent)
- Executive Committee Meeting, Nov. 8, 4 p.m.
- Board of Directors Meeting, Nov. 8, 6 p.m.
- Annual Membership Meeting, Nov. 9, 8:30 a.m.

# Service Delivery Approaches of Cities and Counties

Service	No of cities and counties reporting	Contracting								
		Profit (%)	Neighborhood (%)	Non-profit (%)	Fran-chises (%)	Sub-sidies (%)	Vouchers (%)	Volun-teers (%)	Self-help (%)	Incen-tives (%)
<b>Public works and transportation</b>										
Residential solid waste collection .....	1,376	35	0	0	15	1	0	0	1	1
Commercial solid waste collection .....	1,106	44	0	0	19	1	0	0	1	0
Solid waste disposal .....	1,223	28	0	2	5	0	0	0	0	0
Street repair .....	1,643	27	0	1	0	0	0	0	0	0
Street/parking lot cleaning .....	1,483	9	0	0	0	0	0	0	1	0
Snow plowing/sanding .....	1,287	14	0	0	0	0	0	0	0	0
Traffic signal installation/maintenance .....	1,569	26	0	2	1	0	0	0	0	0
Meter maintenance/collection .....	640	7	0	0	0	0	0	0	0	0
Tree trimming/planting .....	1,451	31	1	1	1	0	0	3	3	0
Cemetery administration/maintenance .....	703	11	1	8	1	1	0	3	1	0
Inspection/code enforcement .....	1,588	7	0	1	0	0	0	0	0	0
Parking lot/garage operation .....	780	12	0	2	2	1	0	0	0	0
Bus system operation/maintenance .....	508	24	1	9	5	9	0	1	0	1
Paratransit system operation/maintenance .....	560	23	2	21	4	14	3	8	4	0
Airport operation .....	530	24	0	4	9	2	0	1	0	0
Utility meter reading .....	1,200	10	0	1	10	0	0	0	0	0
Utility billing .....	1,243	13	0	1	9	0	0	0	0	0
Street light operation .....	1,284	39	0	2	14	0	0	0	0	0
<b>Public safety</b>										
Crime prevention/patrol .....	1,660	3	5	2	0	0	0	10	5	0
Police/fire communication .....	1,684	1	0	3	0	0	0	3	0	0
Fire prevention/suppression .....	1,516	1	1	3	0	1	1	18	1	0
Emergency medical service .....	1,333	14	1	10	3	5	0	16	0	0
Ambulance service .....	1,214	25	1	10	4	8	0	15	0	1
Traffic control/parking enforcement .....	1,505	1	0	1	0	0	0	1	0	0
Vehicle towing and storage .....	1,285	80	0	0	7	0	0	0	0	0
<b>Health and human services</b>										
Sanitary inspection .....	939	1	0	6	0	1	0	0	0	0
Insect/rodent control .....	1,037	14	0	5	0	1	0	0	1	1
Animal control .....	1,482	6	0	9	1	1	0	0	0	0
Animal shelter operation .....	1,225	13	1	18	1	3	0	2	0	0
Day care facility operation .....	436	35	6	37	2	15	2	4	3	2
Child welfare programs .....	558	5	2	24	1	8	1	6	2	0
Programs for elderly .....	1,189	4	4	29	1	13	3	18	7	1
Operation/management of public/elderly housing .....	602	13	1	18	0	5	0	1	0	2
Operation/management of hospitals .....	361	30	1	27	1	4	1	2	0	1
Public health programs .....	721	8	2	27	1	9	2	8	2	0
Drug/alcohol treatment programs .....	626	6	4	41	1	13	1	6	2	1
Operation of mental health/retardation programs/facilities .....	512	7	3	40	1	15	1	5	1	1
<b>Parks and recreation</b>										
Recreation services .....	1,444	4	5	13	2	4	1	20	5	0
Operation/maintenance of recreation facilities .....	1,535	8	3	9	9	2	0	10	2	0
Parks landscaping/maintenance .....	1,573	9	1	2	1	1	0	4	1	0
Operation of convention center/auditoriums .....	448	5	1	6	3	2	0	2	1	1
Operation of cultural/arts programs .....	702	7	8	39	2	18	2	32	6	0
Operation of libraries .....	1,153	1	1	10	0	6	0	12	1	0
Operation of museums .....	498	4	3	32	1	17	0	21	2	0
<b>Support functions</b>										
Building/grounds maintenance .....	1,672	20	0	1	0	0	0	1	0	0
Building security .....	1,497	8	0	1	0	0	0	0	0	0
Fleet management/vehicle maintenance										
Heavy equipment .....	1,643	32	0	0	0	0	0	0	0	0
Emergency vehicles .....	1,558	31	0	0	0	0	0	0	0	0
All other vehicles .....	1,631	29	0	0	0	0	0	0	0	0
Data processing .....	1,466	23	0	2	0	0	0	0	0	0
Legal services .....	1,608	49	0	2	0	0	0	0	0	0
Payroll .....	1,720	10	0	1	0	0	0	0	0	0
Tax bill processing .....	1,241	11	0	6	0	0	0	0	0	0
Tax assessing .....	1,038	7	0	4	0	0	0	0	0	0
Delinquent tax collection .....	1,213	10	0	3	0	0	0	0	0	0
Secretarial services .....	1,657	4	0	0	0	0	0	0	0	0
Personnel services .....	1,663	5	0	1	0	0	0	0	0	0
Labor relations .....	1,513	23	0	1	0	0	0	0	0	0
Public relations/information .....	1,545	7	0	2	0	0	0	1	0	0

Reprinted from *Rethinking Local Services: Examining Alternative Delivery Approaches*, published by the International City Management Association.

The report, the most comprehensive survey of privatization now available, includes separate chapters on the various service delivery alternatives and 32 case studies illustrating examples of those alternatives in cities and counties nationwide.

### Contracting

The ICMA survey revealed the services most commonly contracted out to private firms: vehicle towing and storage, legal services, solid waste collection, street light operation, fleet management and vehicle maintenance, tree trimming and planting, street repair, traffic signal installation and maintenance, labor relations, solid waste disposal, data processing, building and grounds maintenance, and ambulance service.

More than 1,000 of the cities and counties surveyed reported that the above services were being provided in their jurisdictions, and at least 20 percent of the reporting jurisdictions said they were contracting for the services with a private firm. (The highest proportion, 80 percent, was reported for vehicle towing and storage.)

Many cities and counties do not provide some of the services listed in the survey. Of the services offered by fewer than 1,000 of the jurisdictions, five were being contracted to private firms by 20 percent or more of the reporting governments: operation of day care facilities, hospital management, airport operation, and the operation or maintenance of bus and paratransit systems.

### Nonprofit Organizations

Contracts with nonprofit organizations were also reported by many cities and counties. As the table indicates, such contracts were more common in the areas of health and human services and parks and recreation than in other service classifications.

Twenty percent or more of the reporting governments indicated that they were contracting with nonprofit organizations for operation of day care facilities, child welfare programs, programs for the elderly, hospital management, public health programs, drug and alcohol treatment programs, operation of mental health and mental retardation programs or facilities, operation of cultural programs, museum operation, and operation or maintenance of paratransit systems.

The ICMA survey also included a special classification for contracts with neighborhood groups. Five percent or more of the reporting governments said they had

## A Few Examples

The ICMA report *Rethinking Local Services* includes a number of brief case studies on contracting and the other service delivery alternatives. The case studies provide background, a service description, a review of implementation, results, recommendations from officials, and contact information.

Here is a sampling of the results reported in the case studies:

- Scottsdale, Ariz., (population 103,000) contracts for fire services with Rural/Metro Corporation, a member of the Private Sector Fire Association. The annual per capita cost of the fire service was \$25.68 in FY 1983, compared with the national average of \$50 for cities of 50,000 to 100,000 population. Scottsdale's city manager says even more important than the cost savings are the company's fire-fighting innovations, such as redesigned equipment.
- In Gainesville, Fla., (population 85,000) officials say the city saved nearly \$300,000 in the first year of the contract for fleet management and vehicle maintenance. In 1980-81 the contract costs were still 4.5 percent less than the projected costs of an in-house operation in 1978-79. The city's director of general services said the service quality had clearly improved under the contract.
- Hall County, Ga., (population 76,000) contracted with a private firm for fire and ambulance services beginning in 1979. The county estimated that it had saved \$100,000 to \$200,000 per year under the contract.
- All recreation services in La Mirada, Cal., (population 41,000) were contracted to a private firm in 1981. The city estimated that it had saved about \$40,000 per year and reported a high degree of citizen satisfaction with the service quality.
- Loma Linda, Cal., (population 11,000) began contracting for landscape maintenance in 1976. It experienced problems with defaulting by contractors, but the number of firms offering the service prevented major service interruptions. The city estimated that contracting had been about 40 percent less expensive than provision by city employees.
- In Phoenix (population 790,000), the city bids against private contractors for residential solid waste collection (see box page 5 on Phoenix's unusual approach). The city auditor's figures indicated savings of \$713,000 by contracting in one section of town and savings of \$615,000 in another part of town where the city was the low bidder.
- Phoenix also contracts out custodial services, but does not compete with private firms for the contract. Over a three-year period, estimated annual savings ranged from \$300,000 to \$618,000, the latter figure representing savings of 54 percent.
- Prince George's County, Md., (population 665,000) saved an estimated \$425,000, or 15.5 percent, by contracting out the operation of its data processing facility.

Many more examples of privatization, although less detailed than the ICMA case studies, can be found in a 1980 book titled *Cutting Back City Hall*, by Robert W. Poole, Jr.

New developments in privatization are regularly reported—and promoted—in *Reason* magazine, published by the Reason Foundation of Santa Barbara, Cal., of which Poole is the president. The foundation's Local Government Center also publishes a monthly newsletter, *Fiscal Watchdog*, devoted to privatization and other ideas on cutting the cost of local government.

The Council for International Urban Liaison in Washington, D.C., is another organization that monitors innovations in local government. It publishes *Urban Innovation Abroad*, a monthly newsletter that sometimes contains news items on privatization abroad. It has also published a report titled *Cutback Management: A Trinational Perspective*, which includes examples of privatization.

such contracts for crime prevention or patrol, operation of day care facilities, recreation services, and cultural programs.

## Franchises

Franchises, the second alternative, are arrangements whereby local governments authorize private organizations to provide a service in a certain geographic area. The governments often regulate the service level or quality, and sometimes the price, but the users pay the service providers directly.

Franchise agreements are not commonly used for a wide variety of services. In the ICMA survey they were in effect in 5 percent or more of reporting governments for only 10 services: residential and commercial solid waste collection, solid waste disposal, bus system operation or maintenance, airport operation, utility billing and meter reading, street light operation, vehicle towing and storage, and operation or maintenance of recreation facilities.

One reason for the limited use of franchises is that they can be employed only for services received by identifiable individuals, since the provider must charge consumers directly. It is easy to identify the users in the case of solid waste collection, for example, but not in the case of street repair.

## Subsidies and Vouchers

Subsidies are sometimes used by local governments to encourage private organizations to provide a service. They are used most frequently in connection with health and human services, and with bus and paratransit system operation, ambulance service, and the operation of museums and cultural programs, according to the ICMA survey.

Vouchers, the fourth alternative in the ICMA survey, are used even less frequently than franchises and subsidies. Under a voucher system, individuals are issued coupons with monetary value that can be redeemed only through the purchase of a particular service. (The food stamp program is a voucher system.) They are, in effect, subsidies to consumers rather than to service providers.

The rationale behind vouchers is that individuals are given access to a service they might not otherwise be able to afford, but they are allowed to choose among a variety of service providers rather than being limited to one (either the government itself or a contracted or fran-

chised private provider). In this respect, a voucher system resembles a free market.

For only 11 services listed in the survey did even 1 percent of the responding governments report the use of vouchers. Those services were paratransit system operation, fire prevention and suppression, operation of day care facilities, child welfare programs, programs for the elderly, hospital management, public health programs, drug and alcohol treatment programs, operation of mental health and mental retardation facilities, recreation services, and cultural programs.

## Volunteers

Volunteers, as defined by the ICMA survey, are individuals who work without pay for a local government. Although the use of volunteers in recreation programs, libraries and social services—and as firefighters—is not a recent innovation, governments have begun to recruit them for a wider range of services.

The survey results show that public safety, human services, and recreation are the service classifications with the most widespread use of volunteers. Although volunteers may help a local government

## The Antitrust Thrust

In a 1943 case (*Parker v. Brown*) involving regulations on marketing by California raisin producers, the U.S. Supreme Court ruled that anticompetitive actions by state governments are not subject to prosecution under federal antitrust laws. Thus was born the "state action" antitrust exemption.

But the court ruled in a 1978 utility case (*City of Lafayette v. Louisiana Power & Light Co.*) that the state action immunity does not automatically extend to the actions of local governments. It applies, the court said, only if the local government action is "pursuant to state policy to displace competition with regulation or monopoly public service."

The principle was reaffirmed and specifically applied to a "home rule" city in a 1982 cable TV case (*Community Communications Company v. City of Boulder*).

One of the results has been a raft of lawsuits by companies seeking to compete with municipalities in the provision of various services:

- In January 1984 the village of Grayslake, Ill., its mayor, the county in which it is located, and a former member of the county board of supervisors were found liable in a sewer system dispute for \$28.5 million in damages, the largest federal antitrust award ever made against local government.
- A Dubuque licensing ordinance that protected the city-run ambulance service from private competition was declared in violation of Iowa's antitrust statute in late 1982. The state supreme court ruled that home-rule status does not exempt Iowa cities from the antitrust law.
- An Albuquerque garbage hauler is suing the city for \$9 million for allegedly violating the antitrust laws by monopolizing garbage services.
- The city of Cheyenne, Wyo., is being sued by an electric company for granting an exclusive franchise to a competitor.
- The city of Las Vegas amended its ordinances to allow the licensing of more ambulance operators after it was sued, unsuccessfully, for \$1.5 million by a private ambulance company.
- A nonprofit organization that wanted to build a health-care facility sued the city of Pontiac, Mich., which operates a municipal hospital, for denying it a "certificate of need."

Many of the suits have been dismissed on the grounds that the city actions were sanctioned by the state. Nevertheless, local officials are now vulnerable to legal battles that can be prohibitively costly even if they prevail. If they lose, they are subject to triple damage awards. So some cities have decided to avoid antitrust litigation by changing their anticompetitive practices.

There is a move at the federal level to limit the antitrust liability of municipalities, but legal authorities differ on how such legislation would stand up in court. Meanwhile, the Supreme Court is scheduled this fall to hear a case (*Town of Hallie, et al., v. City of Eau Claire*) that may clear up the confusion about the standards city actions must meet to qualify for antitrust immunity.

# Public-Private Competition

One interesting outgrowth of the privatization trend is Phoenix's practice of pitting its own public works and parks departments against outside vendors for some city contracts.

Although Phoenix began farming out services in 1977, it wasn't until 1979 that the direct competition between city departments and private vendors began.

An obstacle to such an arrangement in most cities is the discrepancy between the accounting systems used by the city and those employed by the private vendors. Governmental bodies usually don't follow normal business accounting procedures, and studies have shown that city estimates of the cost of providing municipal services frequently leave out capital equipment, pension liabilities and other overhead items.

Phoenix has avoided that problem. When the city enters into bidding competition with outside vendors, the city auditor uses cost data from the appropriate city agency and allocates the proper portion of city overhead. The auditor reviews the agency's past financial records and may add costs to the bid if he believes it appropriate. The final bid is placed in a sealed envelope, and is not revealed even to the city agency. Once the contract is awarded the city auditor monitors the winner's performance, whether city department or private vendor.

Among the services Phoenix has put up for bids in the city-vendor competition are solid waste collection, solid waste disposal, street sweeping, and maintenance of median landscaping. Certain components of the city's fleet maintenance operation are also under consideration for contracting competition. The city also contracts some operations, such as custodial services, without competition from a city department.

# Refuse Collection

Most municipal services have not been studied systematically to determine which method of delivery is the most efficient. But this is not the case for refuse collection.

In a nationwide study conducted in 1975 and 1976 (*Evaluating the Organization of Service Delivery: Solid Waste Collection and Disposal*, by E. S. Savas and Barbara J. Stevens) two Columbia University professors found that contracting solid waste collection was significantly less expensive than either municipal or free market collection.

In his 1982 book *Privatizing the Public Sector*, Savas said his own study and others had demonstrated that the evidence is "overwhelming and clear" that contract collection is more efficient than municipal collection.

A recent study of solid waste collection in 131 Canadian municipalities supports Savas' conclusion. In an April 1984 paper summarizing the study findings, Dr. James McDavid of the University of Victoria's School of Public Administration reported that municipal collection was 50.9 percent more expensive per household than collection by private contractors.

The study showed that the most important contributing factor was the dramatic difference in the productivity of the collection crews: private collection crews were found to be 95 percent more productive than their municipal counterparts in terms of tons collected per person per hour.

provide a higher level of service without an additional tax burden, they generally do not contribute to the development of private alternatives to government services.

## Self-Help

Self-help is a variation of the use of volunteers in which the volunteer workers are the beneficiaries of their own efforts. Neighborhood watch groups are examples of self-help organizations. Four services were named by 5 percent or more of the reporting governments as having at least a self-help component in their jurisdictions: crime prevention and patrol, programs for the elderly, recreation services, and cultural programs.

## Regulatory and Tax Incentives

The seventh alternative in the ICMA survey is the use of regulatory and tax incentives. By changing the cost of a service these techniques can reduce the demand for the service or encourage the private sector to provide it.

Even less common than vouchers, regulatory and tax incentives were reported to be in use by 1 percent or more of the responding governments for only 11 services: residential solid waste collection, bus system operation or maintenance, ambulance service, insect or rodent control, operation of day care facilities, programs for the elderly, operation or management of public housing, hospital management, drug and alcohol treatment programs, operation of mental health and mental retardation facilities, and operation of convention centers or auditoriums.

## Proposition 13

A significant factor in the recent growth of interest in privatization was California's passage in 1978 of Proposition 13, which slashed property taxes and forced local governments to cut services, raise other revenues, or become more efficient (or some combination of the three).

One result was an increase in government contracting with the private sector in California. A survey on the practice by the California Tax Foundation indicated that the most common reason given for contracting out services was anticipated cost savings.

The advantages of contracting most commonly cited by the survey participants—92 California cities, counties, school districts and special districts—were availability of special equipment and

# Corrections and the Private Sector

Privatization has invaded even the field of corrections.

For example, the Nashville-based Corrections Corporation of America was formed in 1982 to seek government contracts to operate corrections facilities. CCA now runs two corrections centers: a community facility for juveniles in Memphis (Shelby County), Tenn., and a processing center for illegal aliens in Houston.

The Houston minimum-security facility is authorized to house up to 300 persons. The Immigration and Naturalization Service contracts for only a year at a time, but the contract with CCA is renewable for up to five years. The INS plans to let contracts for similar but smaller alien detention centers in El Paso and Laredo later this year, although the El Paso facility will house only women and children.

Another home-grown experiment in private corrections that was aborted at the eleventh hour also involved an alien detention center. Palo Duro Private Detention Services of Amarillo had a contract with the Federal Bureau of Prisons—the first such contract let by the bureau—to operate a detention center in Mineral Wells.

Two weeks before the facility was to open, the bureau cancelled the contract. Don Smith, Palo Duro's vice president for security, said the cancellation stemmed from community opposition.

Meanwhile, Buckingham Security, Ltd. of Lewisburg, Pa., has received approval to proceed with the design, construction and operation of a 720-bed penitentiary in North Sewickley Township outside of Pittsburgh.

Joseph Fenton, executive vice president of the recently incorporated (September 1983) firm, said Connecticut, Indiana, Kentucky, Maryland, New Jersey and West Virginia are among the states that have

indicated an intention to contract with Buckingham once the facility is in operation. Negotiations are under way for a similar facility in Idaho.

The Pennsylvania prison will house only inmates who require protective custody, as will the Idaho facility if it becomes a reality. Fenton said this includes such inmates as those who testify against their associates, inform on fellow inmates, incur gambling debts in prison, break ranks with a dominant prison gang, or have been convicted of crimes such as child molesting that are frowned upon even in the prison culture.

The private sector has also become involved in the correctional field by another route. Free Venture is the name given to a number of projects launched in the late 1970s in which private firms contract with state prison officials for the production of goods or services by inmates of correctional facilities.

The experiment gained impetus from the so-called Percy Amendment, passed in December 1979, which authorized the now-defunct Law Enforcement Assistance Administration to set up pilot projects in state prisons that would be able to sell products in interstate commerce.

Previously, state prison industries were forbidden to sell products interstate. Some states, including Texas, forbid the sale of prison products to anyone other than the state and its local governments.

Minnesota has perhaps the most extensive Free Venture operations, as well as a long history of prison industry marketing in the private economy. Such sales have been legal since the prison industry program was inaugurated back in 1891, according to Donald Tomsche, industry coordinator for the Minnesota Department of Corrections.

Examples of the Free Venture projects include the salvaging of precious metals from printed circuit boards for Sperry Corporation, the refurbishing of telephone housing units for Western Electric (prior to the AT&T divestiture), and the assembly of disk drives and other computer components for Magnetic Peripherals, a subsidiary of the Minneapolis-based Control Data Corporation. The quality of work on this last project has earned the inmates two quality control awards from Control Data.

Wages under the Free Venture projects are required to be the "prevailing wage" for the job and experience level of the inmates. The state receives the money from the companies and disburses it to the inmates, who are hired and fired by prison officials. Tomsche said the incentives for good behavior created by the situation have "done wonders" for prison management.

Another unusual prison industry experiment in Minnesota is a private, nonprofit corporation called Stillwater Data Processing Systems Inc., which leases space at one of the state correctional facilities. Inmates do computer programming for such firms as Control Data, 3M Company and Honeywell Inc., and may earn as much as \$6 an hour. The corporation's board of directors includes representatives from private industry and the state prison industry coordinator.

Tomsche said the prison industries try to operate on a self-sustaining basis so as not to compete unfairly with the private sector, but so far that goal has not been achieved by all of the projects, or by the overall prison industry program.

Nevertheless, the Minnesota projects have made significant headway towards the goal enunciated by Chief Justice Warren Burger: the transformation of the nation's prison system into "factories with fences."

skilled personnel, reduced cost of labor and material, and avoidance of start-up costs. The disadvantages most commonly cited were difficulty in monitoring contracts, and unreliability of contractors.

### Urban Institute Study

Similar views on the virtues and drawbacks of privatization were expressed in a 1973-74 study by the Urban Institute, based in Washington, D.C. An updated version of the study, titled *Private Provision of Public Resources: An Overview*, was published in May 1978.

The study recommended that local governments review services on a periodic basis to determine whether some form of private provision might be the most efficient way to provide them. It concluded that the evidence was mixed on whether private contracting was more economical than provision by government employees.

### Contracting in Texas

Closer to home, the Institute of Urban Studies at the University of Texas at Arlington studied privatization in Texas. The study findings, including a survey of 208 Texas cities, were published in December 1982 in a report titled *The Private Connection: A Texas City Official's Guide for Contracting with the Private Sector*.

The survey results indicated that 45 of the 50 services listed were provided via private sector contracting in at least one city, and that contracting was more preva-

lent in cities located in metropolitan areas.

The services most frequently contracted were engineering and legal services, which were provided by the private sector in 65 percent and 48 percent of the surveyed cities, respectively. Other services commonly contracted were architectural services (36 percent of the cities), street lighting (35 percent), solid waste collection (33 percent), street construction and maintenance (27 percent), ambulance service (23 percent), mapping (22 percent), tax collection (21 percent), utility billing (15 percent), planning (15 percent), police training (15 percent), water supply (11 percent), and building and mechanical inspection (11 percent).

The report concluded that wider use of private contracting should be investigated by Texas cities. It recommended the avoidance of practices that might limit contracting to a few established firms, careful screening of potential contractors, the use of incentives such as bonuses for superior performance, and aggressive contract monitoring.

### The Case For Contracting

A variety of arguments have been made for and against private contracting. The following list summarizes the advantages asserted by its proponents:

- Competition arising from contracting leads to reduced service cost or improved service quality, or both;
- The growth of government, or at least

of government employment, is limited;

- Persons with specialized skills can be obtained as needed, and without the constraints imposed by salary limitations or civil service restrictions;

- New projects can be undertaken without large initial capital outlays, thus facilitating experimentation with new services;

- The size of a program can be adjusted without employee layoffs or negotiations;

- The full cost of a service becomes more visible, providing a yardstick for comparison;

- Economies of scale can be realized;

- Government managers can devote their attention to planning and monitoring rather than administering day-to-day operations, thus promoting better management and greater objectivity in evaluating current operations;

- The consequences of managerial decisions are borne more directly by the decision maker, since profits are at stake and costs can't be automatically passed on to the taxpayers;

- The need to clearly define services and monitor performance produces management information that is often otherwise unavailable.

### The Case Against Contracting

Critics of private contracting have raised the following objections to the practice:

- The contractor's profits and the costs of contract monitoring may make services more expensive rather than less so;

- The profit motive leads to cost-cutting practices that reduce the quality of the service;

- The desire to obtain contracts leads some contractors to engage in bribery, kickbacks and payoffs;

- Services may be disrupted if a company declares bankruptcy, goes out of business, or is hit by a strike or work slowdown;

## Privatize City Management?

Even the basic management function has been contracted out by several small Florida municipalities, according to the Local Government Center in Santa Barbara, Cal.

The center's monthly bulletin, *Fiscal Watchdog*, monitors developments in the field of privatization and cost-cutting in local government. The March 1984 issue reported that Caleb Christian, a self-styled "free-lance bureaucrat" who heads a firm named Administration, Inc., had contracted with the Jupiter Inlet Commission and the Loxahatchee Council of Governments to provide administrative services.

Meanwhile, Management Services Institute of La Mirada, Cal., has begun marketing municipal management services as well. The firm's president, Douglas Ayres, is a former city manager who pioneered the adaptation of private sector cost accounting to government accounting. Ayres began developing the system—which creates municipal "service centers" as counterparts to profit centers in a business—in Kansas City, Mo., in 1957.

The aim of the system is to match up those who pay for a service with those who benefit from it, and to encourage the development of an entrepreneurial outlook among bureaucrats. This usually requires a complete reorientation in thinking, Ayres says, because "costs are an alien concept in local government."

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• Public employees may become demoralized and may engage in job actions or bring costly legal challenges against contracting;

• Contracts that clearly define desired services are difficult to write in many service areas, and often have cost-plus-fixed-fee provisions that give no incentive for efficiency;

• Governmental accountability and control is reduced;

• Public policy objectives such as equal opportunity employment or veterans' preference in hiring may be undermined;

• Competition may not exist in a particular service area, and once a company is awarded a contract it may be renewed almost automatically, thus limiting competition;

• Responding quickly to emergencies or major changes in service needs may be difficult because of contract constraints;

• Close monitoring of the contractor's activities is needed to ensure contract compliance;

• Contractors may acquire undue political power;

• Contracting may co-opt nonprofit so-

cial service agencies and cause them to downplay their role as a social conscience.

### Conclusions

Except in the case of solid waste collection (see box page 5), no systematic comparisons of governmental service delivery with private service delivery have been reported. There is a great deal of favorable anecdotal evidence on privatization, and evidence of benefits in particular cases (see box page 3), but given the current state of research it would be difficult to prove or disprove the above assertions.

In its discussion of the contracting alternative the ICMA report concluded that local governments are apparently contracting a growing number of services with the private sector. But it said the surveys done so far are not definitive enough to declare it a major trend.

The services that appear to be the best candidates for contracting, the report said, are new services (such as day care), services for which outputs can be specified clearly (solid waste collection), services that require specialized skills (legal) or spe-

cialized equipment (sewer cleaning), seasonal services (snow plowing), and services with a large number of providers (solid waste collection).

The other forms of privatization are less widely practiced than contracting and, like contracting, have not been the subject of intensive research. The best single source of information on these alternatives is ICMA's *Rethinking Local Services*.

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