

Understanding Privatization of Local Government Services

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Privatization: Trends, Issues and Alternatives
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Outline

Privatization Trends - ICMA Data

Complexity of Local Government Restructuring

Local Governments Structure Markets

Major Trends

- Level of privatization among local governments relatively stable.
- Government restructuring is a complex process.
- Local government service delivery is dynamic.
- Local governments structure markets to ensure competition and service quality.

Data

International City County Management Association
Surveys of Alternative Service Delivery 1982, 1988,
1992, 1997

Sample Frame:

All cities over 10,000

All counties over 25,000.

Response rate 31% (roughly 1500 municipalities).

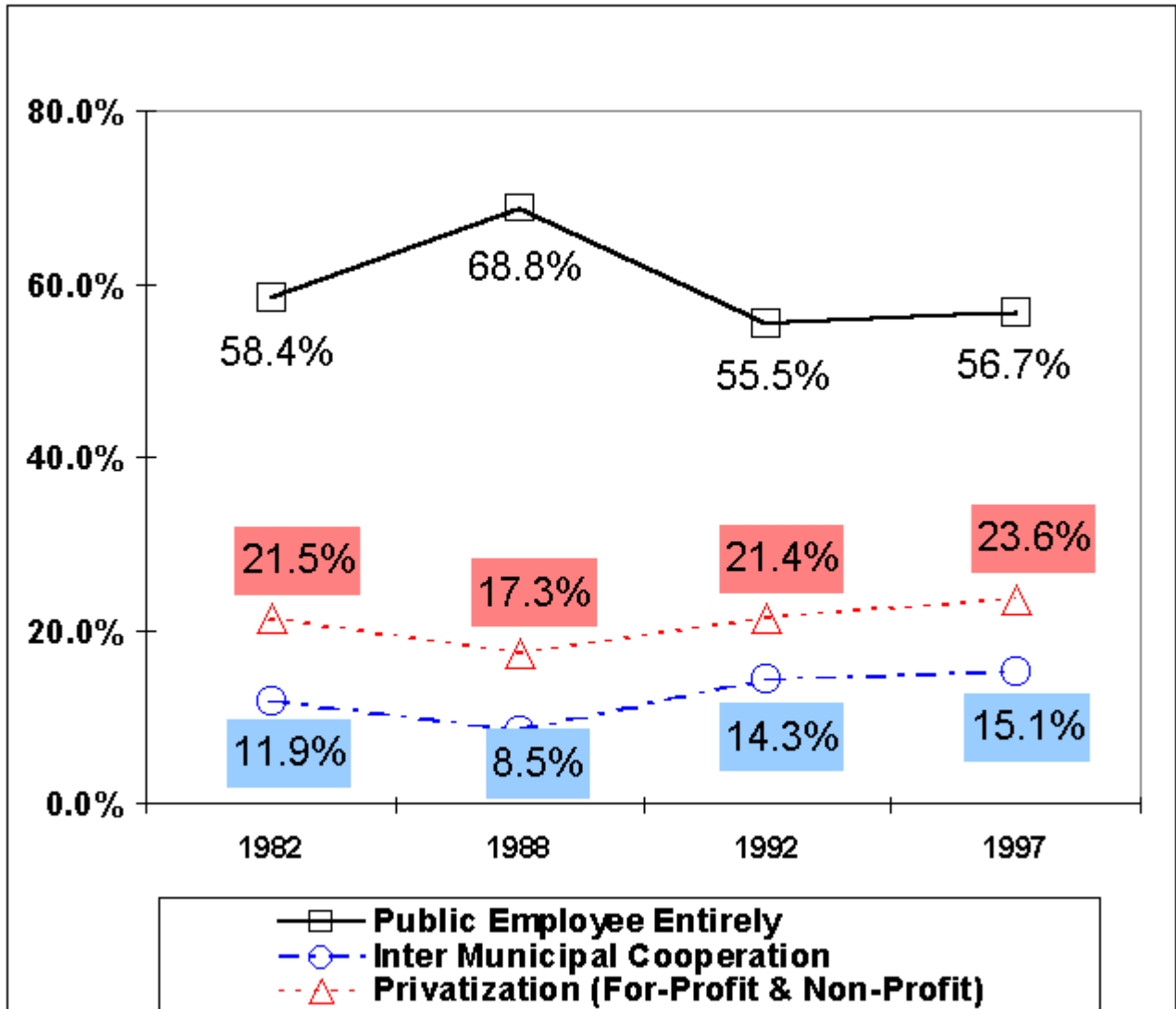
Scope:

64 specific services

6 service delivery options

Factors motivating restructuring

Trends in Local Government Service Provision over Time



Form of service delivery as percent of total provision across all places and all services.

U.S. Cities and Counties, Number: 1982=1675, 1988=1627, 1992=1444, 1997=1460.

Source: International City/ County Management Association, Profile of Alternative Service Delivery Approaches, Survey Data, 1982, 1988, 1992, 1997, Washington DC.

Level of Restructuring by Local Government

	Census		ICMA		
	1988	1992	1988	1992	1997
Contracting Out	31%	59%	93%	98%	92%
Cooperation	-	21%*	75%	88%	73%
No. Services Measured	12	17	71	65	64
Sample Size	34,445 ¹	34,445 ¹	1628	1444	1460

Percent places restructuring. All places = 100%.

*Of those places, which answered the cooperation question. Many did not.

¹ Common respondents for both time periods. 83 % of respondents under 10,000 in population.

Source:

International City/ County Management Association, Profile of Alternative Service Delivery Approaches, Survey Data, 1992, 1997, Washington DC.

US Census of Governments Organization File 1988, 1992.

Why So Little Growth in Privatization?

Theoretical basis for privatization - Public Choice
separate service provision from service delivery

- Privatization addresses government failure and gives more consumer choice.

I. Is the lack of growth in privatization due to government failure?

1. Local governments have always contracted services.
2. Fiscal stress is declining.

	Survey Year:	
	1992	1997
External fiscal pressures, restrictions on raising taxes	38%	30%
Internal attempts to decrease costs of service delivery	62%	60%
Change in political climate - decreased role for government	14%	16%

3. Opposition is stable.

Opposition from citizens	15%	14%
Opposition from elected officials	18%	20%
Opposition from local government line employees	26%	28%
Opposition from departments heads	14%	15%

4. Managerial capacity is rising.

Allowed government to compete in the bidding process	10%	17%
Programs to minimize effect on displaced public employees	10%	13%
Insufficient supply of competent private deliverers	12%	12%
Lack of staff with expertise in contract management	7%	6%

II. Is lack of growth in contracting due to quasi-market failure? (Lowery)

Failure of a market to form

High cost of contracting - preference error

Loss of community values - preference substitution

1. Contracting Is a Difficult Process

- Services hard to specify or measure.
- Lack a competitive market of alternative suppliers.
- Cost of contracting is high.
- Monitoring is difficult and expensive.
- Less than half governments report monitoring.

	1992	1997
Cost	42%	40%
Compliance with delivery standards specified in contract	34%	38%
Citizen satisfaction	29%	28%

2. Efficiency Gains Hard To Secure

- Labor intensive services. Savings come from: increased process efficiency or reduced service quality.
- Case study evidence inconclusive.
- Quantitative studies show benefits overstated.

3. Concern about loss of public values.

- Loss of public control and accountability
- Loss of service quality
- Loss of social benefits

By separating provision decision from service delivery “citizen consumers” may exercise choice based on race or income rather than efficiency or service quality.

Local Governments Structure Markets

Government is a major market player:
regulator, provider, contractor

Governments structure markets

- to ensure competition
- service quality
- cost savings
- public values

Restructuring is a Complex Process

- Privatization to for-profits
- Privatization to non-profits
- Inter-municipal cooperation
- Mixed public/private provision
- Reverse privatization
- Governmental entrepreneurship
- Internal process improvements

Trends in Local Government Restructuring By Service Area

Year	Service Area	Inter-Municipal Cooperation	Private for Profit	Non-Profit
92	Support Functions	13%	17%	1%
97		8%	21%	1%
92	Public Works	17%	20%	2%
97		15%	25%	2%
92	Public Safety	13%	16%	4%
97		11%	14%	3%
92	Health and Human	41%	10%	17%
97		33%	11%	17%
82	All Services	12%	16%	5%
88		9%	17%*	
92		14%	16%	5%
97		15%	18%	5%

U.S. Cities and Counties, Number: 1982=1675, 1988=1627, 1992=1444, 1997=1460.

The average place probability to provide a service by alternative restructuring form as percent of provision level

*Contracting out to for-profit or non-profit firms was not differentiated in the 1988 survey.

Source: International City/ County Management Association, Profile of Alternative Service Delivery Approaches, Survey Data, 1992, 1997, Washington DC.

Mixed Public/Private Provision

- ensures competition in service quality and cost
- enhances internal efficiency
- ensures dependability in the case of contract failure

Year	Service Area	Public Entirely	Mix Public/ Contracting Out	Totally Contracted Out
92	Public Works	53%	24%	23%
97		43%	21%	36%
92	Health and Human	28%	16%	56%
97		31%	15%	54%
92	Support Functions	65%	19%	16%
97		56%	19%	25%
92	Public Safety	60%	11%	29%
97		54%	9%	37%

U.S. Cities and Counties, Number: 1982=1675, 1988=1627, 1992=1444, 1997=1460.

Stability and Reverse Contracting

Stability in overall trends masks considerable movement - in and out and among alternatives.

Most governments which contract out also contract back in.

From 1992-1997 (ICMA Data)

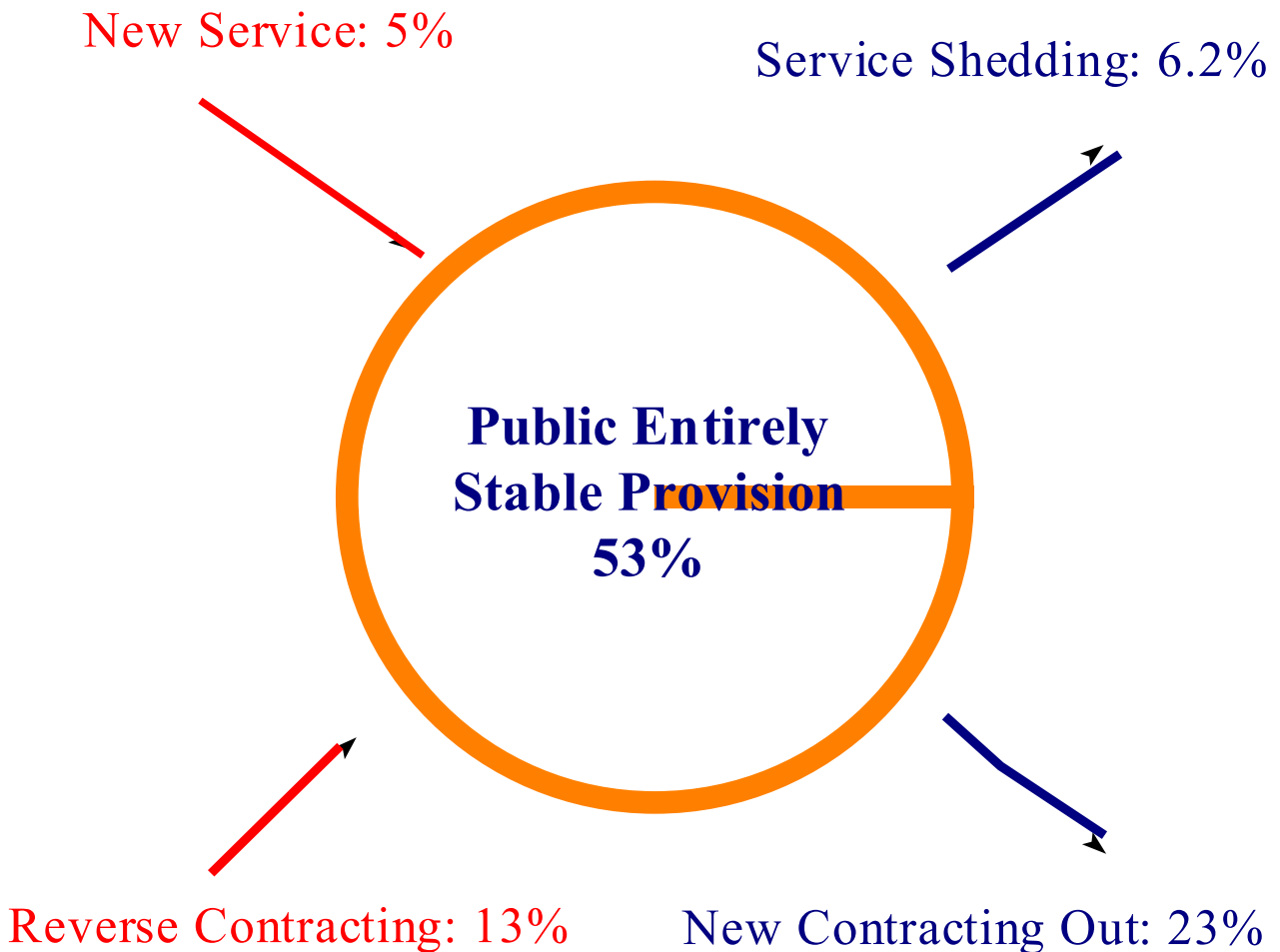
New Privatization - 90 % of all responding governments
(on average 8 services)

Contracting Back In - 86% of all responding
governments
(on average 4.5 services)

Reverse contracting is:

- Highest where contracting is also high.
- Driven by problems with service provider.
- Substitute for monitoring

Stability of Service Delivery Alternatives 1992 to 1997

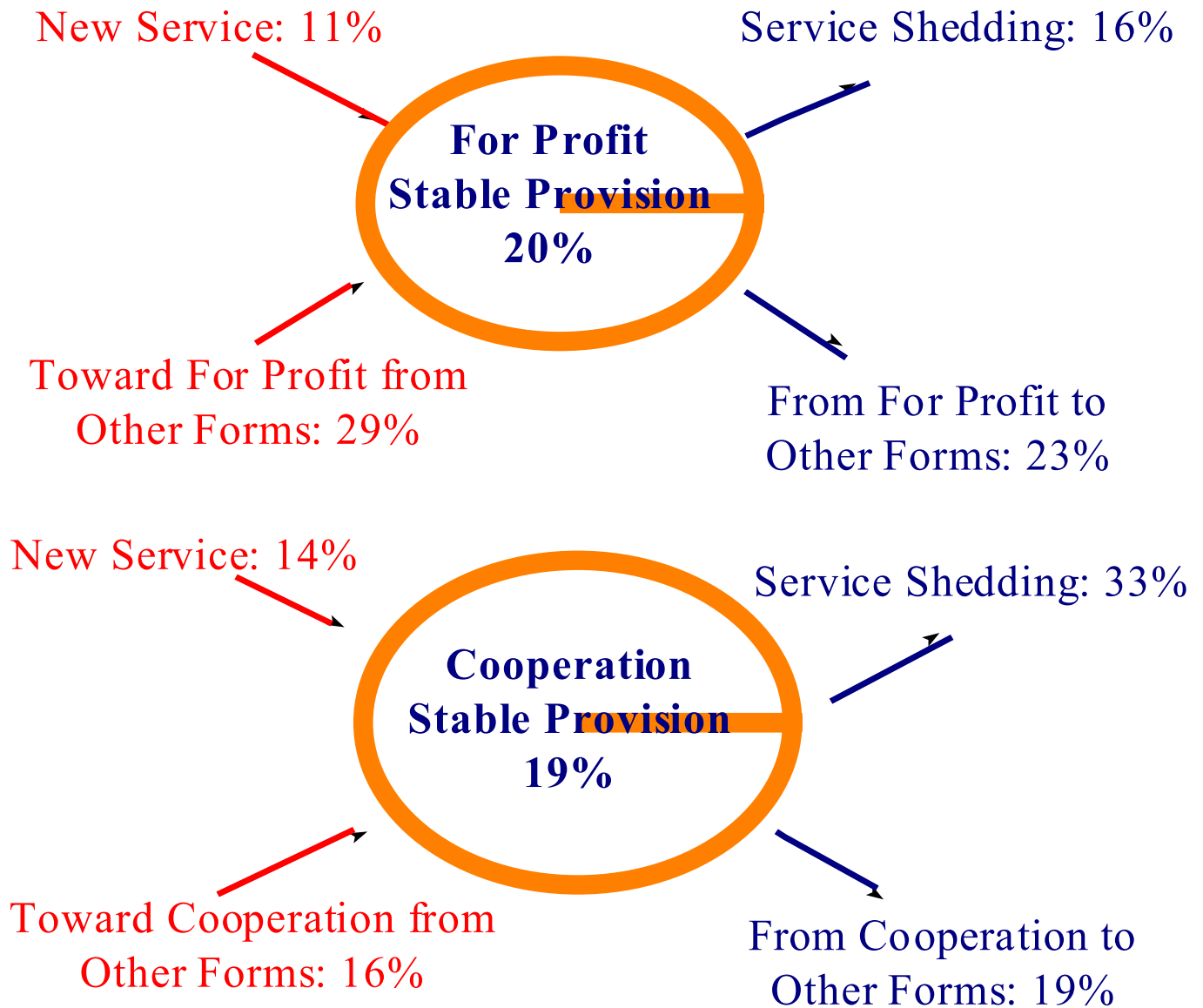


U.S. Cities and Counties, N for 1992 and 1997 = 628

Average number of movements within a delivery alternative as a percent of average number of services provided by that alternative (provision = at least one time period).

Source: International City/ County Management Association, Profile of Alternative Service Delivery Approaches, Survey Data 1992, 1997, Washington DC.

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Conclusion

Overall privatization trends mask considerable instability in contracts.

Local government service delivery is complex.

Governments structure markets as provider, contractor and regulator to ensure efficiency and service quality.

Public choice should balance consumer choice with community choice