

**PRIVATIZING PUBLIC SERVICE AND
THE MONTANA EXPERIENCE**

by

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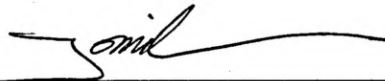
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ABSTRACT

Privatization initiatives designed to increase the use of market mechanisms and the private sector in operating or supporting public programs have attracted increasing attention in the United States and elsewhere during the last decade. In the United States, contracting out has been employed most widely at the state and local levels. From coast to coast, government bodies, principally in response to pressures from taxpayers for greater efficiency, have been relying increasingly on the private sector to get the job done.

State and local governments in Montana have been subject to severe financial stress throughout the 1980's. Federal transfers have been cut drastically; in addition, limits on tax revenues have been imposed and the state's economy has been weak. Therefore, to meet the challenge of maintaining an acceptable level of public services with reduced real revenue, state and local governments are aggressively seeking ways to reduce the costs of services without lowering the level or quality of service. This study assesses the advisability of one such strategy, the privatization of janitorial services at the Montana State Capitol Complex in Helena. The study addresses possible management difficulties and undesirable side effects as they relate to privatization.

This paper demonstrates that privatization works. Yet, privatization can only be successful if certain measures are taken. This research study provides an examination of these factors.

CHAPTER 1

INTRODUCTION

The past decade or more has witnessed a surge of interest in privatization as a means of carrying out public service in the United States and elsewhere around the world. Prompted by public outcries over the burden of government taxation and new public choice economic theories which stress the inherent inefficiencies of government, public leaders have launched an intensive search for ways to reduce the scale of government and shift more of the responsibility for coping with public problems to the private sector under conditions of fixed or declining revenues.

At his inaugural address, former President Ronald Reagan proclaimed that government is the problem; it is too expensive and too big. Mr. Reagan promised to make the federal government smaller, under what he called New Federalism.¹ The result was that federal transfer payments to state and local governments were reduced substantially during the Reagan years, dropping from \$94.8 billion in 1981 to \$92.5 billion in 1983.²

On June 6, 1978, California voters approved Proposition 13, which slashed property taxes and limited future increases. Proposition 13 rolled back property taxes at a time when they seemed to be rising out of control, thus preserving the

homes of many hard-pressed residents and bringing some stability to the system.³ Proposition 13 also put a limit on government spending by linking all government budget growth to increases in population and cost of living.⁴ In the late 1980's, Montana introduced its own version of Proposition 13, Initiative 105 (I-105). The passage of I-105 put a freeze on property taxes at 1986 levels.⁵

Government in Montana has suffered from the above-mentioned disabilities and, in addition, has experienced a depressed economy through most of the decade. The oil, railroad, coal and mining industries have experienced some very hard years. Many small businesses have gone under. Cuts or severe limits on public spending have occurred all over the state.

The solution to this problem is either to increase revenue or to decrease the costs of public service provision. Advocates of privatization argue that the latter is both more feasible and more desirable. John Crutcher believes that public sector costs are too high, because practically all government activities are provided by agencies that are monopolies. They have no competition to compel efficiencies that would reduce costs.⁶ To solve this problem, agencies have to compete with the private sector or with other agencies. Under such a system, the cost of service would be lower than under the present arrangement of public agency monopolies.⁷

The research in this study deals with an alternative approach, that of turning service delivery over to private contractors. For all the attention privatization has attracted, however, at least two crucial features of the

approach -- its extensive history and its management challenges -- remain poorly understood. These features have significant implications for the success of privatization and, more importantly, for the effectiveness with which public needs will be met and serviced.

Privatization: A New Phenomenon?

Contrary to the belief of some, privatization is hardly a new phenomenon in American government. It is already firmly embodied in the structure of many public programs and has been for decades.

Unlike the mixed economies of western Europe, some of which established nationalized industries alongside private firms in a number of sectors, the United States has generally restricted government to a much more limited role. Many of the techniques of privatization, such as contracting out or providing market-oriented incentives through the tax system, are therefore already developed in the American setting. As of fiscal year 1987, for example, the federal government was spending more than \$200 billion annually to purchase goods and services from the private sector. The Department of Defense alone initiates more than 15 million contract actions a year and deals with more than 300,000 private contractors. Similarly, by the end of fiscal year 1987, the federal government had \$507 billion in guarantees outstanding on loans advanced by private financial institutions, and was making another \$150-200 billion in special "tax expenditures" available each year to private individuals and corporations.⁸

The Challenge of Privatization

The fact that some of the major instruments of privatization have already been in operation in the United States for some time suggests that such government action works. Yet one of the most important of these lessons seems to be regularly overlooked, i.e., that privatization poses major management challenges.

Given the arguments advanced in support of privatization, this is not so surprising. Privatization is regularly defended as a way to escape the cumbersome mechanisms of government bureaucracy through reliance upon the efficient operations of the private market. By using vouchers and user fees or relying on competitively bid contracts with private firms, privatization is supposed to solve the problems of public management by significantly reducing the role of the public manager.

While contracting out for standard products such as paper and pencils or supplies may be reduced to a simple routine, this is not the case for many of the more important forms of privatization such as vouchers, procurement of major weapons systems, loan guarantees, and contracting for complex research and development activities, or for the operation of major federal facilities. What distinguishes these forms of privatization from routine procurement is that they involve sharing large amounts of discretionary authority over the spending of public funds and sharing public authority between government employees and private organizations or individuals.

These forms of privatization result not so much in less public management as in new forms of public management. Instead of the traditional hierarchical relationship between manager and employee characteristic of most public agencies, these forms of public action involve extensive shared responsibility among largely autonomous entities. Holding contractors and other partners accountable thus involves complicated bargaining relationships across significant organizational borders.

If privatization is to grow in importance as a way of carrying out public responsibilities, it is critically important to address the distinctive management tasks it involves. This must include attention to the appropriate role of the public sector in dealing with privatized services, as well as the more specific operational mechanisms through which this role can be exercised. Yet, more important to the success or failure of privatization, several factors should be considered before government agencies decide to implement privatization. These factors are: market strength, political resistance, cost efficiency, quality of service, impact on employees, legal barriers, risk, resources, and control. By using these factors, government agencies are able to evaluate whether or not a particular service should be privatized.

The Purpose of This Paper

With all the attention that has been given to privatization, evaluations and implementation, many members of the public administration community (elected

officials as well as managers) have taken far too limited a role in the discussion of privatization. It seems that many may have adopted some form(s) of privatization just because they had promised to do so during their election campaign, or because it was the "in" thing to do, jumping on the bandwagon. This is unfortunate, not only for the credibility of the policy, but, more importantly, for the successful operation of privatization.

Whatever the personal feelings of public administrators and government officials about privatization, the fact remains that this form of government operation is already important and seems likely to become more so. It is therefore imperative to come to a clear understanding of privatization. Before privatization can be implemented, it has to be understood. Officials need to know why privatization is being considered, how it can be implemented, some of its advantages and disadvantages, and what challenges it presents to managers and represents to employees.

This paper deals with an alternative approach to service delivery: privatization, i.e., turning service delivery over to the private sector. Five topics comprise the heart of this paper. Chapter 2 reviews the tangle of terminology that has complicated the understanding of privatization. It then outlines specific forms of privatization, ones that are most commonly mentioned throughout the literature. Chapter 3 illustrates experiences with privatization, reviewing examples of privatized services in the local, national and international arenas, and noting instructive instances of successes and failures. Chapter 4 examines

more specifically some of the perceived advantages and disadvantages of privatization, concluding with a list of factors that are crucial to its success or failure and which should be considered before implementing this policy. Chapter 5 focuses on privatizing janitorial services, using the case of the privatization of janitorial services at the Montana State Capitol Complex in Helena. This provides a concrete example to illustrate the conditions under which privatization typically is tried and the results one might expect. The paper concludes with a commentary and recommendations.

Inevitably, a study of this nature cannot address in depth all facets of a topic so complex as privatization. The goal, rather, has been to focus attention on some facets of privatization that are believed to be crucial and to provide a framework for thinking about these facets and coming to terms with them.

End Notes

¹David A. Stockman, "The Triumph of Politics," Newsweek, 21 April 1986: 40-57.

²U.S. Department of Commerce, Bureau of the Census, Statistical Abstract of the United States (Washington, DC: U.S. Government Printing Office, 1988).

³Scott Armstrong, "Winner and Still Champ: Proposition 13!" Christian Science Monitor, 19 October 1988: 3.

⁴George F. Will, "The Proposition 13 Pendulum Swings Back," Los Angeles Times, 5 June 1988: V-5.

⁵Terry Sacks, "I-105 Leaves Legislature a Tangled Legacy," Bozeman (MT) Daily Chronicle, 6 November 1986: 1.

⁶John Crutcher, "Privatizing the U.S. Postal Service," Vital Speeches 54 (June 1988): 520-525.

⁷Ibid.

⁸U.S. Office of Management and Budget, Management of the United States Government, Fiscal Year 1988 (Washington, DC: U.S. Government Printing Office, 1987), 63, 83. For further information on the scope of contracting and on the instruments of public action, see: Frederick C. Mosher, "The Changing Responsibilities and Tactics of the Federal Government," Public Administration Review 40 (1980): 541-548 and Lester M. Salamon, "The Changing Technology of Public Action: An Overview," Beyond Privatization: The Tools of Government Action, ed. Lester M. Salamon (Washington, DC: The Urban Institute Press, 1988).

CHAPTER 2

WHAT IS PRIVATIZATION?

Privatization, as a word and as a concept, is closely associated with the discipline of economics. It is a term employed internationally, as well as domestically, and is today one of the central concepts in many studies of possible future directions for world economies.

From a general perspective, privatization means the provision of public sector services through the private sector, but trying to define the term more precisely is like trying to define modernization, democracy or representation. All are concepts that are difficult to define, lack clear-cut criteria, and are often used to advance the goal of special interests.¹ In addition, the literature identifies two very different definitions that are widely used. One is reasonably clear and precise, but is exceedingly narrow. The other is broad, but considerably more complex and ambiguous.²

The narrow definition of the term privatization was coined mainly as a political slogan describing the movement to reduce the role of modern government and transfer back to private hands responsibilities that governments had assumed in the modern welfare state. At its core, therefore, privatization essentially means load-shedding, the surrender by government of certain of its

functions to private for-profit and non-profit institutions. The clearest examples are cases in which government owns or operates an industry or is otherwise directly supplying a good or service. Privatization in such circumstances means government liquidation of its ownership or supplier role so that the free market can handle the activity instead. The basic rationale is the conviction that government involvement produces significant inefficiencies not warranted by any compensating social benefits.

While the narrow definition has a certain precision, it covers only a small range of the possible ways in which the private sector can be involved in providing public services. What is more, it posits a sharp distinction between public and private action that is easier to sustain in theory than in fact. In practice, few activities in a modern industrial economy are wholly governmental or wholly private. The two sectors are simply too interdependent and have too many points of intersection for such neat, conceptual categories to work. While there are fundamental differences between the public and private sectors, to restrict the term "privatization" only to those circumstances where the public sector wholly surrenders involvement to the private sector restricts it to an excessively limited range of cases.

In view of this, a much broader definition of the term privatization has come into widespread use.³ This definition embraces not only denationalization or load-shedding by government, but also a variety of other forms of government action that involve reliance on the private sector, such as contracting out to

private firms for the delivery of services or for the operation of government facilities, or the use of vouchers, user fees, franchises, loan guarantees, and government sponsored enterprises.

Underlying this broad definition is a fundamental distinction between government as a financier, authorizer or overseer of services, and government as a producer or provider of services. The broad definition extends the term privatization to the broad set of arrangements under which government remains involved as the financier or authorizer of services, but relies on the private sector of the market for the actual provision and delivery. So conceived, privatization is not an either/or proposition, but a continuum, with government funded and provided services at one end, privately funded and provided ones at the other, and a wide array of combinations in between.

Stuart M. Butler believes that such privatization will reduce government costs through establishing private sector alternatives that are more attractive to supporters of government programs.⁴ According to Butler, privatization is a strategy that deals with special interest coalitions directly, by diverting the demand for government goods and services from the public sector to the nongovernment sector.

Public organizations do not have the same control over their operations as private organizations because their jurisdictions and authority differ. For instance, these two realms differ in their basic rules of disclosure of information. The government is subject to greater public access. Private firms have fewer

obligations to conduct open proceedings or to make known the reasons for their decisions. Privatization diminishes the sphere of public information, deliberations, and accountability.⁵ Opponents of privatization see this as a major flaw, one which should not be overlooked.

Harry P. Hatry agrees that government costs would be reduced by privatizing government programs. According to Hatry, there are 11 approaches that can be used to increase private sector participation: (1) contracting out/purchase of service, (2) franchises, (3) grants/subsidies, (4) vouchers, (5) volunteers, (6) self-help, (7) use of regulatory and taxing authority, (8) encouraging of private organizations to take over activity (service shedding), (9) demarketing/reduce demand for service, (10) obtaining temporary help from private firms, and (11) user fees and charges to adjust demand.⁶

These privatization approaches to service delivery, according to Hatry, can be used in different combinations and when administered produce at least one of the following consequences: (1) provide a given service at a lower cost, (2) reduce demand for service and thus lower government costs, (3) reduce the government service without reducing demand, (4) raise more revenue for government service, and/or (5) provide service without increasing costs.⁷

The History of Privatization

Privatization is a new term; however, private provision of public services has occurred for decades.⁸ Contracting out for mail delivery predated the

Constitution and was common throughout the nineteenth century. Activities that one would reasonably assume to be purely governmental functions, such as tax collection, were among those performed by contractors. The original Secret Service organization during the Civil War was in reality a contracting operation between the Department of the Treasury and several private firms. Similarly, the federal government contracted for the incarceration of prisoners with states and local jurisdictions which, in turn, often subcontracted the labor of these prisoners to private firms until Congress first appropriated funds for operating a federal prison in the 1890's.

With the rise of the Progressive Movement in the latter part of the nineteenth century, and ultimately the coming of the New Deal, the scope and scale of government action expanded greatly. Underlying this expansion was a faith in the principles of scientific management and in the capacity of humans to improve their circumstances by applying scientific knowledge. As the social institution with the broadest reach, government came to be viewed as an excellent mechanism for pursuing social progress. The upshot was a host of governmental social welfare, economic, regulatory, and public infrastructure programs.

This period not only witnessed a considerable extension of the American administrative state, but also witnessed a substantial expansion of government cooperation with the private sector. As early as 1916, the federal government entered the field of road construction, not through the creation of a federal road

construction bureau, but through grants to states to help finance contracts with private contractors. Similarly, the federal government's initial involvement in the housing field, the Federal Housing Administration, created in 1934, was essentially a loan guarantee agency that underwrote loans by private banks to individuals to help finance houses constructed by private builders.

This same approach played a crucial role in the significant expansion of public social welfare programs in the 1960's. For example, public-private partnerships were a pivotal feature of the Housing Act of 1968 which assists in the provision of housing to low and moderate income families, and extends and amends laws relating to housing and urban developments. Medicare and Medicaid also embodied the same basic approach, putting federal resources behind the reimbursement of private hospital, nursing home, and physician care.

In short, the rapid growth of government from the turn of the century through the 1960's occurred not at the expense of the private sector but, in considerable measure, in combination with it. At the very least, the number of purely governmental programs hardly exceeded the number involving the joint action of the public and private sectors.

Nevertheless, the sheer scope and complexity of government action, either on its own or in combination with the private sector, gave rise to serious criticisms during the early 1970's. Critics charged that governmental taxes had become too burdensome, that government programs were ineffective, that regulations affecting business were excessive, and that hundreds of federally

operated programs had become too cumbersome. The result was new-found political support for even greater reliance on the private sector to cope with public problems.

These sentiments found expression in the budget policies of the Nixon administration and in the significant breakthroughs toward deregulation of passenger airlines and trucking during the Carter administration. With the election of Ronald Reagan in 1980, the assault on activist government and support for privatization became a central part of national policy. President Reagan used privatization as the justification for proposing severe cuts in federal domestic spending. His administration proposed user fees in a number of fields and also sought to breathe new life into the federal government's procedures for encouraging agencies to contract out the purchase of goods or services to private vendors.⁹ On the occasion of his 1987 Independence Day speech, President Reagan announced the creation of a study commission on privatization, and called for even more energetic privatization efforts.¹⁰

Forms of Privatization

Experts have identified many forms of privatization, to the extent that some consider even private donations a form of privatization. For the purpose of this analysis, Hatry's categories provided the focus.¹¹ Hatry defines the forms of privatization as follows:

Contracting Out

Contracting out essentially involves government purchase of particular goods and services from the private sector. The government (federal, state or local) may contract to have all or a portion of the service provided by private firms.

The major purpose of contracting with the private sector is to reduce costs. The assumption is that private firms are able to deliver the service at lower cost than can the government agency. Private firms have more incentive to keep costs down, especially if there is competition for the contracts among potential suppliers. They also can avoid the bureaucratic problems inherent to government.

The main cause of lower costs through contracting is competition among potential providers. If only one or very few suppliers are available, the major advantage of contracting may be lost.

Franchises

With franchises, the government awards either an exclusive or nonexclusive franchise to private firms to provide a service within a certain geographical area. Individual citizens directly pay the firm for the service they receive, while the government's role is primarily regulatory. The government retains the option to control the prices that private firms can charge or the service levels provided, usually to avoid exploitation. In exclusive franchises, the regulatory body

establishes the rates, generally based on an analysis of the firm's cost. As a rule, these are set to allow the firm a fair rate of profit. The primary rationale for franchising is that the government completely removes itself from the delivery business in favor of presumably more efficient private firms.

There are two kinds of franchises, nonexclusive and exclusive. In nonexclusive franchises, the franchised firm functions in a competitive environment with customers able to choose among multiple suppliers. This continuing competition is intended to be a strong encouragement to improve efficiency, lower rates, and provide quality service to customers. In exclusive franchises, the franchise firms' contracts are renewed at frequent intervals and are competitively awarded, providing incentives for low cost, quality service.

Grants and Subsidies

With grants and subsidies, the government makes a financial or in-kind contribution to private organizations, or to individuals, encouraging them to provide a service so that the government does not have to provide it. Grants or subsidies may be one-time awards to encourage the private agency or individual to undertake an activity, or they may be annual payments, perhaps to enable the private agency to hold down charges to users, especially where the government regulates the charges or service levels.

When compared to other privatization approaches, the rationale for this approach is that the grant or subsidy is a more expensive way to encourage private activity that will benefit the community and that could not be done as

efficiently or economically by the government. Even though grants and subsidies are considered to be more expensive than other privatization approaches, they remain less expensive than having the government deliver the service.

Vouchers

The government provides vouchers to citizens needing a service. These citizens are then free to use the vouchers to purchase the goods or services from an organization of their choice, and the organization returns the vouchers to the government for payment. The vouchers can be used only for the specified goods or services. The organization that provides the service can be public or private. The government can set limitations as to which organizations are eligible to receive vouchers.

The rationale for vouchers is that they give clients an increased choice of suppliers. To the extent that there is not a highly constrained set of eligible suppliers, clients should be better able to obtain the type of service they want. Suppliers deficient in quality or level of service presumably would not be used.

Volunteers

With the volunteer approach, individuals in the jurisdiction provide unpaid help to a government agency, thereby reducing the amount of government expenditure that otherwise would be required. Volunteers may supplement government services or wholly provide a service.

The use of volunteers for local activities, such as recreation and library aides and other social service activities, is not new. What is different, however, is the current interest in more systematic efforts by governments to identify jobs for volunteers within many local government agencies, to recruit the volunteers for those jobs, and to provide guidelines, technical assistance, training, and administration for the volunteer activity within the whole government entity. Most volunteer activity in local governments is specific to individual city departments.

The primary attraction of volunteers is that they are free. They usually undertake tasks that otherwise would not be performed. In most cases, local government's official policy is that volunteers are not intended to replace paid employees, but to perform activities that otherwise could not be supported. In periods of very tight funding, however, governments may be tempted to lay off paid personnel where there is a reasonable chance of substituting volunteer help. Volunteer use is likely to be most applicable where the needed job skills can be developed quickly or where many citizens are likely to enjoy the activity, e.g., in library, recreation, and fire programs.

Self-Help

Under the concept of self-help, the government encourages individuals or groups to undertake activities for their own benefit. Although there is a similarity between self-help and other alternatives, the key element in self-help

is that individuals or groups are encouraged to undertake an activity in which they are the primary client group.

Under self-help the emphasis rests on finding solutions to the group's own problems and thereby developing self-reliance. With self-help groups, mutual assistance and community action are prominent themes. The assumption is that citizens, at least under certain conditions, will be willing to help themselves and will be better able than the government to provide the proper level and type of service. Advocates generally believe that individuals or groups can provide the required service at less cost than can the government.

Use of Regulatory and Taxing Authority

In this approach, governments use regulatory and taxing authority to encourage the private sector to provide services, or at least to reduce the need for public services. Governments in one form or another have used regulation and taxation for years, particularly for controlling housing and commercial activities. Regulatory and taxing authority can be employed to affect the costs of private sector individuals and businesses and the way they do business. Regulations apply to both profit and nonprofit agencies, but taxation applies primarily to for-profit organizations.

The use of regulatory and taxing authority reshapes regulations and taxes to promote and partly reflect certain market activities and to encourage the desired behavior by the private sector. This approach can thus be used to encourage private sector activity to meet community social needs. Reducing

regulations can remove barriers to entry of alternative providers and reduce the costs to private sector organizations.

Local governments can undertake deregulation to reduce licensing requirements for entering the market. For example, requirements for a specific type and amount of training caseworkers can be reduced to permit alternative types of care programs, such as streetfront walk-in centers.

Encouragement of Private Organizations to Take Over an Activity

Here the government seeks to give up responsibility for an activity but works with a private agency that is willing to take it over. The rationale for this approach is usually that the service is an inappropriate one for government and can be provided more efficiently or more effectively by the private sector. The motivating factor in most recent exits by local governments has been to reduce government expenditures.

This approach is likely to achieve the largest government cost savings, when it can be taken. Nevertheless, there is likely to be considerable opposition, depending on the extent of the proposal. A government that is voluntarily giving up a service will likely attempt to retain some form of control, even if only to assure interest groups that certain minimum types and levels of service will be provided.

Examples of governments exiting from service without retaining some major participation are mostly found in hospitals and other human service

entities, such as day care or homes for the aged, where state or local governments have opted not to deliver the service but to purchase it when needed. Providers of such services are from both the for-profit and nonprofit sectors.

Demarketing/Reducing the Demand for Service

In this approach, a government attempts to reduce demand or the need for services through a variety of marketing techniques. The government encourages potential clients of services to alter their behavior in a constructive way so as to lessen the need for future services.

The rationale is that in some situations the amount of government service needed can be reduced by private actions, with the result of reducing government costs and, in some cases, improving the well-being of the citizen. Demand-reducing techniques provide an opportunity for governments to be innovative and to use business type marketing and publicity skills not often employed by government agencies.

Obtaining Temporary Help from Private Firms

In this approach, private firms loan personnel, facilities, or equipment, or even provide funds to the local government. The rationale for loaned executive programs is that business executives have knowledge and experience that local managers may lack, or at least they have a fresh perspective and their experiences are transferrable to the problems of government. The rationale for gifts of facilities, equipment, or funds is that the government has been unable to raise

sufficient funds for items or activities that the givers believe would be helpful and that do not represent a conflict of interest for the givers. The firm considers the help to be in the community's interest, and it improves the public image of the firm.

Using Fees and Charges to Adjust Demand

In this instance, users of a service are charged a fee based on the amount of their use of the government supplied activity, thus putting the financial burden on users of the activity. The use of fees and charges has been increasing in recent years, especially in areas affected by the state fiscal containment efforts. The major purpose of those fees has been to raise revenues.

The rationale for this approach is that the persons who use a particular service should pay for it in accordance with their amount of use. This causes people to consider the service's cost to them and to adjust their demand for the service in proportion to the value they set on that service. The belief is that when fees are charged, many citizens can be expected to reduce their use of the service from the level at which the service represented no cost to them. Fees and charges give better signals to government managers about the necessary size of public facilities or extent of services.

Why Privatize?

Authorities give a variety of reasons for privatizing services.¹² These reasons are classified as either ideological or practical. The ideological reasons for deciding to privatize include:

- (1) Less government is better.
- (2) Lower taxes will stimulate the economy.
- (3) Private firms are efficient and economical.
- (4) Management will be improved.
- (5) There will be better incentives to perform well.
- (6) The service is already being delivered by the private sector.
- (7) Response to political demands will give way to response to economic demand.

Most practical reasons for privatizing have to do with reducing the costs of providing public services and these tend to be more easily measured. The practical reasons for deciding to privatize are:

- (1) Lowering the cost of providing services. Proponents believe that the private sector can provide public services at lower cost than government agencies.
- (2) Improving the quality of services. Some people believe that the private sector can provide higher quality services than government.
- ✓(3) Improving the operations of government. Some people believe that the competition introduced by privatization forces public agencies to provide services more efficiently and effectively.
- (4) Adjusting for limited resources. Government agencies may not have staff or resources to provide a service. Some services require expertise that is difficult to get or maintain within government agencies.

- (5) Filling needs for short-term projects. Some projects do not produce enough work for government to hire full-time permanent staff.

Whatever the motivation for privatization, according to Harry P. Hatry, such approaches to service delivery can be used in different combinations and, when administered, produce at least one of the following consequences: (1) provide a given service at lower cost, (2) reduce demand for service and thus lower government costs, (3) reduce the government service without reducing demand, (4) raise more revenue for government service, and/or (5) increase the amount, quality, or effectiveness of the government-provided service without increasing costs.¹³

Summary

In summary, privatization can take many forms. The 11 forms described in this chapter provide only a sampling of different ways the public and private sectors interact to fulfill public policy objectives. Whatever their expected benefits, each of the tools described also entails management challenges. Some are unique to individual forms; others manifest themselves across the board.

Chapter 3 will review the literature on privatization covering examples of privatized services in the local, national and international arenas. These examples will point out the successes and/or failures of privatization.

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CHAPTER 3

EXPERIENCE WITH PRIVATIZATION

Privatization Worldwide

A worldwide trend toward privatization has accelerated dramatically in the past few years. It has encompassed governments of all political persuasions including some in Communist countries, which are coming to appreciate the large gains in efficiency that involving the private sector can achieve. Nowhere is privatization being carried out as vigorously and extensively as in Britain. When Margaret Thatcher came to power in 1979, about 11.5 percent of the gross domestic product was accounted for by state-owned enterprises. By the time of her third election victory in June 1987, that figure was down by over a third, to approximately 7.5 percent.¹ Among the entities sold to workers, consumers, and the general public were British Rail Hotels, English Channel Ferry Service, Jaguar (automobiles), British Petroleum, British Aerospace, Britail, National Freight Corporation, Gibraltar Dockyard, the British Telecom System, British Gas, British Airways, British Airports Authority, and Rolls Royce. In the process, over half a million employees were transferred to the private sector, of whom about 90 percent acquired shares in their companies, and the total number of private shareholders in Britain roughly trebled.²

In Japan, former Prime Minister Yosuihiro Nakasone had initiated the partial privatization of some of Japan's worst money-losing government enterprises, notably Japanese National Railways. Steps to sell part of the giant Nippon Telegraph and Telephone are also proceeding.³

Privatization in France has been a top priority since Jacques Chirac became Prime Minister in March of 1986. France has announced plans to transfer 65 companies to private hands by 1991, for a total price of at least \$50 billion.⁴ A major goal has been to increase share ownership among French people, and in the first year the number of French owning corporate shares rose from two million to more than five million. The government views the effort as reviving the prospects for French firms to compete internationally and strengthening the French stock market.

Turkey has sold the Bosphorus Bridge and the Keban hydro plant and has 30 more state-owned enterprises on the list for eventual sale. The sale of the national airline began with sales to airline employees, then to the general public, then to domestic and foreign investment firms.⁵

The Italian state holding company, JRI, has begun selling many of its commercial assets. In Spain, part of the state-owned auto manufacturers was sold to Volkswagen, and a state-owned auto factory will follow. The government bus and truck company has been sold to General Motors.⁶

Even the Soviet Union is moving in the same direction. In November 1986, the Supreme Soviet issued a decree allowing a range of private sector

activities. In Estonia, worker-owned radio and television repair shops have achieved important efficiencies and new levels of consumer satisfaction. Independent production cooperatives are being encouraged under reforms advocated by General Secretary Mikhail Gorbachev.⁷

The literature also identifies many more countries around the world that are experimenting with privatization. Among those countries are The People's Republic of China, Cuba, Hungary, Mexico, Costa Rica, Kenya, Guinea, the Ivory Coast, and Tanzania.

Privatization at the Federal Level

In the fiscal 1988 budget, the Office of Management and Budget proposed a number of privatization initiatives. These included the sale of five power-marketing administrations, two oilfields owned by the Department of Energy, excess real property owned by the General Services Administration, the Federal Housing Administration's rural housing insurance fund, auction of the unassigned radio frequency spectrum, termination of federal crop insurance, sale of federal helium equipment assets, sale of Export-Import Bank loans, and sale of Amtrack.⁸

One innovative proposal, advanced by the Office of Personnel Management, is called "Fed Co-Op." It proposes to spin off government entities as independent, for-profit companies with current government employees as shareholders. By offering employees an ownership stake in the privatized

activity, the plan seeks to build support within a group normally opposed to proposals to reduce the federal role.⁹ To date, however, no entity has been spun off under the Fed Co-Op plans.

The 1987 sale of Conrail marked the first major privatization initiative to come to fruition. This was followed later in the year by the sale of loans by the Department of Education and the Farmers Home Administration.

Although much more might have been attempted in recent years at the federal level, there is growing interest in privatization, both in the divestiture of federal government assets to the private sector and in the more aggressive use of contracting.

State and Local Privatization

Over the last 10 years, United States cities and counties have grown increasingly reliant on the private sector to deliver goods and services that were traditionally provided directly by government.¹⁰ The list of services that are opening up to private sector competition is continually lengthening. The municipal contracting-out revolution, by far the most widely used form of privatization,¹¹ now involves such wide-ranging services as data processing, fire fighting, local air traffic control, and city management itself.¹² Table 1 shows the percentage of cities that were contracting out a wide range of services in 1987.¹³ The annual rate of growth in contracting out over the last 10 years has been estimated to be as high as 16 percent.¹⁴

Table 1. Cities and counties contracting out selected municipal services (1987).

Service Type	Cities/Counties Contracting Each Service (%)
Corrections	7
Crime Patrol	7
Utility Billing	11
Hospitals	16
Transit Services	17
Recreational Facilities	19
Building/Ground Maintenance	19
Vehicle Maintenance	21
Ambulance Service	25
Street Repair	29
Fleet Management/Maintenance	30
Data Processing	31
Traffic Signal Maintenance	32
Legal Services	36
Payroll	36
Street Lighting Operation	38
Vehicle Towing	45
Refuse Collection	59
Solid Waste Disposal	59
Vehicle Towing and Storage	78

The prospects for future local privatization efforts also appear quite promising. Touche Ross's survey of city officials found that "nearly 80 percent of the respondents believe privatization will represent a primary tool to provide local government services and facilities in the next decade."¹⁵

Concerning the future outlook of privatization, as well as the belief of many city officials across the country, the next portion of this paper will review the extent and outcome of privatizing government-delivered services from across the country.

In the United States, contracting out has been employed most widely at the state and local levels. From coast to coast, government bodies, principally in response to pressure from taxpayers for greater efficiency, have been relying increasingly on the private sector to get the job done.

Since 1932, San Francisco has franchised garbage collection to private companies. Today, drivers own their trucks and are responsible for collections. In 1975, a study showed that San Franciscans were paying \$40 a year for the private service, whereas New Yorkers in two comparable neighborhoods were paying \$297 a year for municipal collection.¹⁶

Public works and transportation constitute two major functions of local governments. Experience has shown that significant savings are achievable by applying privatization to these service functions. One of the most basic public works service is residential solid waste collection. Several studies have indicated that private contractors can provide this service at significantly less cost than

public departments, although there is some evidence that cost savings are not as much in smaller jurisdictions.¹⁷ Small and medium size cities, such as Pekin, Illinois (population 35,000), and Covington, Kentucky (population 51,000), report the cost of collection dropped by 13.5 percent after they switched from in-house collection to private contractors.¹⁸ Larger cities, such as Dallas, estimate savings of up to 40 percent by privatizing solid waste collections.¹⁹

Bringing in private management is another privatization measure being used by local governments. The American Water Works Company manages government-owned water and sewer facilities for more than 95 communities with over 500,000 people in western Pennsylvania.²⁰

In regard to another public works service, wastewater treatment, the city of Gilbert, Arizona (population 6,000) negotiated a deal with the Parsons Corporation for a new, privatized, 5.5 million-gallons-per-day wastewater treatment plant, to be owned and operated by Parsons.²¹ Town Manager, Kent Cooper, observed, "The privatization approach turned out to be very economically feasible for us to the extent that the debt incurred is not the town's debt. It's the debt of the people who benefit from the plant, the developers in this area."²²

Cost savings can also be expected if privatization is applied to other public works services. For example, in 1982, Wheeling Township, Illinois (population 23,000) was able to cut its road maintenance expenses in half, from \$326,000 to \$171,000, by dissolving its street repair department and turning this activity over

to a private contractor.²³ And in 1978, Santa Fe Springs, California (population 15,000) contracted out its street tree maintenance to a private firm for an estimated 35 percent savings.²⁴

Another common public works service is street sweeping. North Canton, Ohio (population 14,000) began contracting out street sweeping in 1977. Larger jurisdictions contracting out for street sweeping include Tulsa, Oklahoma, and Youngstown, Ohio.²⁵ The State of Washington also contracts out for some of its highway sweeping.²⁶

Some local governments, such as Lafayette, California (population 23,000), have handed over total responsibility for public-works management to the private sector. A private engineering firm provided a city engineer and management support staff. The firm subsequently subcontracted out a number of public-works services, including street repair and tree trimming, to private contractors with an estimated savings of 25 percent.²⁷

Some local governments own and operate their own electric and water utilities. Others, such as Hershey, Pennsylvania (population 14,000) or Charleston, West Virginia (population 64,000), have sold their undercapitalized water utilities to private water companies.²⁸ A less drastic step would be to contract out some utility support services. Lake Oswego, Oregon (population 23,000) contracted out its meter reading services to an innovative private firm. As an example of the kind of innovations private contractors can create, the Lake

Oswego meter readers use motorcycles in order to make their rounds more quickly, and they record meter data on audio tapes for later transcription.²⁹

There is a tremendous amount of interest in community transit service in jurisdictions of all sizes. Some 84 percent of community transit agencies are incorporated as nonprofit organizations.³⁰ Many of these agencies are turning toward privatization concepts to more efficiently provide these services. For example, the city of Springdale, Arkansas (population 21,000) contracted with a taxi company for the provision of subsidized transportation service to the elderly and handicapped.³¹ Winona, Minnesota (population 25,000) contracted with a private taxi firm to operate community bus services. "The City of Winona believes that if the service were provided by city employees, the cost would increase significantly because of higher labor and fringe benefit costs."³² The trend toward privatization transit is also occurring in large cities. Dallas, Texas, Dallas Area Rapid Transit contracts out with Trailways Transit, Inc. for both commuter and regular route service.³³

One of the most challenging areas in which to apply privatization is that of public safety. Many cities across the nation have contract or franchise emergency medical service, thus relying on private providers. These providers also service medium and small cities, as well as rural areas. In Santa Barbara, California (city population 75,000; county population 300,000), 911 Emergency Services serves both the city and remote rural areas in the county. The firm is almost completely self-supporting, except for a small subsidy provided to fund

services to the indigent.³⁴ Lafayette, Louisiana (population 82,000) is the headquarters of the highly acclaimed Acadian Ambulance Service, which serves some 480,000 rural subscribers in nine Louisiana counties covering some 6,000 square miles of Louisiana. Some one-fourth of Louisiana's population is served by Acadian Ambulance.³⁵

Another major functional area in which more and more privatization is applied is health and human services. A number of cities and counties have contracted out the management of their local public hospitals to the private sector, with savings of up to 50 percent.³⁶ Several counties, such as York County, South Carolina (population 107,000)³⁷ and Manatee County, Florida (population 148,000), have sold off their county hospitals to private hospital chains.³⁸ In the Manatee County example, the proceeds from the sale were set aside in a special fund to ensure future financing of services to the indigent.³⁹ A number of local governments and states contract out for mental health and retardation services. Examples include Alameda County, California (population 1,500,000)⁴⁰ and the states of Kentucky and Florida.⁴¹

Sonoma County, California reduced its annual operating subsidy to its county hospital by 50 percent, after turning the operation over to a for-profit hospital management chain. York County, South Carolina, has turned virtually all its municipal hospitals over to for-profit management companies.⁴²

A number of jurisdictions across the country also contract out for general or specialized fire protection service. Nearly three dozen jurisdictions now

contract out for fire service; many are medium and small jurisdictions. These include Sun City (population 40,500) and Paradise Valley, Arizona (population 11,000), Knox County, Tennessee (population 320,000), Hall County, Georgia (population 76,000), and the village of Elk Grove, Illinois (population 29,000).⁴³

Some small local governments have even successfully contracted out for police services for periods of up to five years. Some of the premier examples are Oro Valley, Arizona (population 1,500), and Reminderville, Ohio (population 2,000). Reminderville was quite pleased with the service, achieving savings on the order of 50 percent. Unfortunately, as with a number of other local governments, negative publicity and political pressure forced an end to the program.⁴⁴

One of the newest trends in privatization is the contracting out of corrections facility management and operation to the private sector. At least five United States counties are already doing this, including Aroostook County, Maine (population 91,000), which contracts out to a for-profit firm, and Ramsey County, Minnesota (population 460,000), which contracts out with the nonprofit Volunteers of America for the operation of its women's prison.⁴⁵ Two U.S. states, Kentucky and California, have contracted out the management of one of their state prison facilities to for-profit firms.⁴⁶

Recreation and parks services are a traditional function of local government. And again, across the nation, local governments are turning to the private sector to provide some recreation services. Parks maintenance, as a support

service, is one of the first to be contracted out. Ventura County, California, where agriculture is a major industry, achieved savings of some 20 percent by contracting out park maintenance.⁴⁷ In the 1970's, local governments found they could contract out recreation services directly provided to the public. Imperial Beach, California (population 23,000) contracted out the operation of its community center to the nonprofit Boys and Girls Club of America.⁴⁸ Rhonert Park, California (population 23,000) replaced its \$60,000 deficit for the operation of a golf course with a \$60,000 surplus, after leasing the course to a private operator who also agreed to rebuild the course.⁴⁹

In a study on privatization, the National Commission for Employment Policy identified the degree of savings that is achieved from contracting out services.⁵⁰ Identified in Table 2, these savings range from 16 percent for contracting out street maintenance to 96 percent for contracting out asphalt overlay construction.

Table 2. Cost savings from contracting out city services.

Service Type	Savings from Contracting (%)
Asphalt Overlay Construction	96
Janitorial	73
Payroll	no savings
Refuse Collection	28-42
Street Cleaning	43
Street Tree Maintenance	37
Traffic Signal Maintenance	56
Turf Maintenance	40
Solid waste	37
Mass Transit Services	35-50
Wastewater Treatment Operations	20-50
Bus Service	20-25
Street Maintenance	16
Fire Fighting Services	47

Summary

Chapter 3 has reviewed literature on privatization, focusing on and reviewing examples of privatized services on local, national and international bases. Some detailed information on privatization can also be found in Appendices A and B.

The widespread use of privatization, demonstrated in the literature, provides sufficient examples for an assessment of strengths and weaknesses. Chapter 4 will offer that assessment and provide some guidelines. In Chapter 4, perceived advantages and disadvantages of privatization are examined and problems are explored that should be addressed if privatization is to become an effective option for public managers to implement.

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CHAPTER 4

CONSIDERATIONS IN PRIVATIZING

Advantages and Disadvantages of Privatization

Expert opinion and research on the advantages and disadvantages of privatization are sharply divided; depending on one's perspective, an advantage to one person can be a disadvantage to another person. The following sections identify some of the perceived advantages and disadvantages found in the literature. Discussion of proposed strategies for reducing the disadvantages of privatization follow.

Perceived Advantages of Privatization

Proponents of privatization believe its main advantage is lower cost.¹ This is due to the perceived economic and efficiency aspects of private firms. In addition to lower cost, some of the major perceived advantages of privatization are:

- (1) Project completion times may be reduced.
- (2) Private and public sectors share risks, such as cost overruns.

- (3) Experimental or temporary programs can be arranged with the private sector.
- (4) New options for financing expensive construction projects are available.
- (5) Services are provided that are not available from government, because agencies do not always have the expertise or resources to provide a service.
- (6) Quality of service increases and costs decrease. The private sector pays less for employee benefits, has less absenteeism and fewer holidays, thereby saving taxpayer monies. In addition, privatization results in more jobs in the private sector.
- (7) Business has the opportunity to expand into areas operated and controlled by government. In addition, businesses may receive tax breaks for providing public services.
- (8) The private sector does not have to follow restrictive government procedures and purchasing regulations.

Privatization Adds Competition to Government

In addition to the previous advantages, considering privatization encourages government agencies to review how efficiently they are conducting business and delivering services. By forcing close examination of the costs of services, the prospect of privatization develops improved financial analysis of public

agencies. This is helpful, even if the agency's decision is not to privatize a service.

The key to efficient public services is not always replacing government agencies with private firms, but rather having them compete against the private sector. The competition introduced by the private sector motivates public agencies to lower costs and sometimes improve the quality of service. Examples of this principle are:

- (1) Westminster, Colorado contracted out half of its street cleaning operations to the private sector. It is now comparing the costs of services delivered by city workers with the costs of private contractors.²
- (2) Phoenix, Arizona reduced trash collection costs by its sanitation department to compete against the private sector. City workers have out-bid the private sector and have won the contract to provide services.³

Agency managers should look for ways to deliver public services as cheaply and effectively as possible. Privatization reviews help managers make informed decisions about public service delivery.

Perceived Disadvantages of Privatization

Critics believe the main disadvantages of privatization are higher costs and lower quality of service.⁴ Critics argue that contracting out is more expensive than government delivery of services because of corruption, unemployment payments to laid-off employees, lack of competition, the low marginal cost of

expanding government, and, in the case of cost-plus-fixed-fee contracts, no incentive for cost savings. In addition, government provides services at a lower cost because it doesn't have to make a profit, pay taxes, or carry as much liability insurance as private firms. Critics also contend:

- ✓(1) Government loses some of its control over service delivery which affects the quality of service.
- (2) Private firms are more likely to interrupt services because of declines in profits or labor strikes.
- (3) Government already has considerable capital investment. If a service is privatized, the benefits of owning equipment and facilities may be lost.
- ✓(4) There is less accountability to the public.
- ✓(5) Private firms are less willing than government to provide emergency or more services without additional payment.
- ✓(6) Fraud and corruption may result.
- ✓(7) Certain population groups may be neglected. The private firms may avoid clients who may be expensive to serve.
- ✓(8) Some government employees lose their jobs or their careers are disrupted by privatization.
- ✓(9) Affirmative Action and other civil service policies are weakened.
- (10) Morale and productivity among government workers may decline.

Because there are no direct benefits of privatization for public employees, they are likely to resist efforts to privatize their jobs. Currently, the State of

Colorado is being sued concerning the effects of privatization on public employees.

Strategies for Reducing the Perceived
Disadvantages of Privatization

Agencies can reduce the disadvantages of privatizing a service by taking certain steps. Agencies can reduce many of the negative aspects of privatizing through the contracting process. Careful contract development, purchasing, and oversight procedures may reduce the disadvantages of privatizing a service.⁵ Specifically, agencies can:

- (1) Write contracts that maintain government control over services, including reporting, monitoring, and termination provisions in the contract.
- (2) Use risk reduction strategies, such as requiring a performance bond for failure to follow contract provisions. Another risk reduction strategy is to retain ownership and buy back rights to facilities and equipment.
- (3) Contract with several providers to ensure competition and protect against the interruption of service.
- (4) Require that the contractor hire staff from the affected agency. — *but do they have to keep*
- (5) Require that private firms pay prevailing wages and follow civil services policies, such as Affirmative Action guidelines.

State legislatures may want to consider changing state laws. For example, the state legislature might:

- (1) Establish benefits revisions which make it easier for displaced staff to receive state retirement and health benefits.
- (2) Provide displaced employees with early retirement options.
- (3) Give severance pay to displaced employees.

Implementing Privatization

The decision to privatize a public service can be a simple or a very complex process. A systematic process can improve the chances for success and reduce chances of failure when issues are complex. The literature identifies a variety of approaches that agencies can use in deciding whether to privatize a service.⁶ The best approach is one that considers several factors and relies heavily on objective criteria.

Before an agency decides to implement privatization, it should consider several factors. Identified in the literature, the following factors are crucial to the success or failure of privatization.⁷

Market Strength

Market strength consists of the commercial characteristics of the service. Is the private sector able and willing to deliver the service? The following questions should be considered:

- (1) Does the private sector provide the service?
- (2) Can the private sector provide the service?

- (3) Are there multiple providers? Multiple providers ensure competition and fair contract prices.
- (4) Is the financial commitment so large that providers will not want to deliver the service? If the commitment is too large, it may not be easy for private firms to provide service.
- ✓ (5) Would privatization result in a monopoly situation? Monopolies eliminate competition and may increase costs because they can unfairly raise the price of services. Lottery!!

Political Resistance

Political resistance is the amount of opposition to change concerning who provides the service. This resistance can come from the public, users of the service, interest groups, or public officials.

- (1) Would the public, users of the service, interest groups, or elected officials be highly resistant to changes in provision of this service?
- (2) Is the service a new or existing one? Privatization of a new service is easier than an existing service.

Cost Efficiency

Cost efficiency is the expected cost of services, assuming no change in the level or quality of service.

- (1) Assuming that the quality and level of service remain the same, will cost decrease or increase if the service is privatized?

- (2) Will the savings from privatizing lower government expenditures and cost of the service to the clients? If the privatization reduces both the government's and the public's cost, privatization is supported.

Quality of Service

Change in quality of service is the expected effect privatization will have on the effectiveness, timeliness, and thoroughness of the service provided. Privatization should not decrease the quality of service, but should match or exceed the present quality.

- (1) Will the overall quality of the service likely increase or decrease with privatization?
- (2) Does privatization threaten preservation of client confidentiality or impartiality toward clients?
- (3) Will privatization compromise public trust, confidence, safety, or welfare?
- (4) Will certain targeted population groups likely be neglected if a private firm provides the service?
- (5) Will accountability and responsiveness to the legislative branch, government agency, or consumer likely increase or decrease?
- (6) Can the service objectives be well defined and easily measured? If so, the scale may tip toward the private side.

Impact on Employees

Impact on employees is the effect that privatization will have on government employees.

- (1) Will the net effect of privatization on government employees be positive or negative? Employees may lose their jobs, transfer, receive training, be promoted, or be employed with a private firm.
- (2) How many employees are affected by the privatization? The fewer the number of employees affected, the more the private side is supported.
- (3) Will civil service policies, such as Affirmative Action, be weakened if a private firm provides the service?

Legal Barriers

Legal barriers refer to the effect any laws have on the privatization decision.

- (1) Are there any laws that mandate who should actually provide the service (government versus private providers)? If the government must provide the service, this is supportive of government delivery of the service.
- (2) Do laws have to change to allow the private sector to provide the service? If so, are there many and highly difficult changes?
- (3) Are there interrelationships with other programs, prescribed by law, that inhibit or prohibit privatization? Such interrelationships may be a barrier to privatization.

- (4) Are there federal grant restrictions that interfere with privatization? If so, are they high or low barriers to privatization?
- (5) Is the privatization compatible with legislature intent?

Risk

Risk is the degree to which privatization of a service increases government exposure to hazards.

- (1) How great is the chance that the private firm may fail to provide the service? If the risk is low, this favors the private side of the scale.
- (2) If the service is interrupted or stopped, will the consequences to the public and government be major or minor?
- (3) Is there a risk that providers will reduce or stop services if financial losses occur?
- (4) Does the financial risk from lawsuits by disgruntled users of the service increase or decrease?
- (5) Does the risk of corruption or abuse increase with privatization?
- (6) Does government benefit from sharing some of the risks with the private sector?
- (7) Does the private sector have some of the responsibility for cost overruns?
If the private sector has some of the responsibility for dealing with cost overruns, this supports the private side of the scale.

Resources

Resources refers to the efficient and effective use of existing government assets. Administrative goals and objectives often include efficient use of their resources. Sometimes public administrators use privatization because it is more flexible or efficient than government delivery of services.

- (1) Does the private sector have expertise that is not easy to develop or maintain in the government agency?
- (2) Are there any time constraints that favor or impede privatization? The budget process may be too slow to react to crisis. Privatization may be helpful where the service occurs sporadically during the year.
- (3) Does the private sector possess needed equipment or facilities not currently owned by the government?
- (4) Are there any resource advantages government has over the private sector?
- (5) Will privatization extend or reduce project completion dates?

Control

Control refers to the government's ability to oversee the provision of the service.

- (1) How important is it for the agency to control the delivery of services?
- (2) Does the government agency have the ability to establish and maintain control mechanisms over the privatized service? What is the agency's

ability to write and manage contracts? Can the agency adequately oversee the delivery of service if those services are provided by a private firm? If adequate control can be maintained, this favors the private side of the scale.

- (3) Is the quantity of service easy to measure and control? If the service's quantity and quality are easy to measure, this is supportive of the private side of the scale.

Benefits of Objective and Systematic Decision Making Process

Privatization of public services should involve an objective and systematic decision making process. Sometimes the decision to privatize a public service is unclear and difficult. The decision making process described above is one way to systematically review the potential for privatization. It has the following strengths:

- (1) Encourages discussion on the pros and cons of privatization.
- (2) Encourages the agency to explore ways to overcome problems.
- (3) Gives the agency an overall view of the strengths and weaknesses of the proposed privatization.
- (4) Standardizes some of the procedures used to evaluate services for privatization.
- (5) Expands to include other considerations.

- (6) Requires that agencies support decisions with facts.
- (7) Can be used on a case-by-case basis.

A rigorous adherence to this or a similar process will contribute to successful reviews for privatization. By using the above mentioned decision making process, government agencies are able to evaluate whether a particular service should be privatized or not. It should be kept in mind that this is not the only decision making approach the literature mentions. Hence, the use of any of several approaches mentioned in the literature should provide government agencies with measures of evaluation.

Summary

This chapter has reviewed the academic and technical literature on privatization, focusing on advantages and disadvantages of privatization and discussing some problems that are associated with privatization.

Chapter 5 will review the literature on privatizing janitorial services (building maintenance) and then examine the Helena, Montana case study on privatizing janitorial services.

End Notes

¹Harry P. Hatry, A Review of Private Approaches for Delivery of Public Services (Washington, DC: Urban Institute, 1983). See also: President's Commission on Privatization, Privatization: Toward More Effective Government, special report by Commission staff (Washington, DC: U.S. Government Printing Office, March 1988); and Privatization in Colorado State Government: Performance Audit, Report of the Colorado State Auditor (Denver, CO: Office of the State Auditor, State of Colorado, March 1989).

²Privatization in Colorado State Government: Performance Audit, p. 14.

³*Ibid.*, p. 15.

⁴Hatry. See also: John Vickers and George Yarrow, Privatization: An Economic Analysis (Cambridge, MA: MIT Press, 1988); President's Commission on Privatization; and Privatization in Colorado State Government: Performance Audit.

⁵*Ibid.*

⁶*Ibid.*

⁷*Ibid.*

CHAPTER 5

SAVINGS FROM PRIVATIZATION OF JANITORIAL SERVICES

? — As seen in the previous chapter, privatization works. It has been used successfully for services ranging from corrections and hospitals to refuse collection and building maintenance. To provide a more detailed example, illustrating the process, outcomes and issues associated with privatization, this chapter reviews the literature on public sector janitorial services, focusing on the privatization of janitorial services at the State Capitol Complex in Helena, Montana.

Privatization of Custodial Services

Evidence suggests that privatization of custodial services is on the rise. This increase is attributed to large savings that are delivered by privatizing custodial services, and the ease of shifting from public delivery. In West Germany, Charles Blanart reports that office cleaning by the Federal Post Office Administration is 42 to 66 percent more expensive than contracting out, and that the cost of cleaning government offices in Hamburg is 30 to 80 percent less costly when done by contract firms.¹

Testimony at a Congressional hearing disclosed that at the U.S. Air Force Academy, contracting for custodial services instead of providing them by in-house personnel would save \$86,000 in three years, and contracting for house-keeping services at the base hospital would save \$33,000 over a similar period.²

The General Service Agency reports that it contracts for 35 percent of the cleaning and 26 percent of the mechanical maintenance in the space it controls, and that based on its experience it expects to continue its trend toward contracting for these services.³ This is an important policy position for supporters of privatization.

In 1977, the New York City Comptroller, Harrison J. Goldin, after a lengthy examination of the City's custodial service, concluded that large sums of money were being wasted. Mr. Harrison said that about half of New York's school custodians employ a relative and that 23 custodians earned more than \$40,000 in 1975. He estimated that the Board of Education was wasting at least \$10 million a year on custodial services. Changing to outside contractors at five schools brought about savings of 13.4 percent and provided a yardstick for evaluating the efficiency of custodial services in other schools. The comptroller went on to recommend a gradual expansion of the number of schools using outside contractors for such work.⁴

In 1977, the City of Little Rock, Arkansas contracted out its city hall janitorial services and achieved a 50 percent cost savings. Through similar programs, Cypress, California saved 20 percent and Phoenix, Arizona saved 57 percent.⁵

There seems to be sufficient evidence, therefore, that privatization of janitorial services for government facilities is a good place to start in the effort to cut public sector costs. The experience of the State of Montana suggests this also.

Privatization of Custodial Services in Montana

The General Service Division (GSD) of the State of Montana is responsible for provision of custodial services to the Capitol Complex. To accomplish this, the division has utilized both in-house and contracted custodial staff. The division began using in-house custodial services during FY 1978-79 as a means of improving quality of services.⁶ Prior to 1978, all custodial services were contracted. According to a 1988 report by the Montana State Auditor's Office, the quality of service provided by the in-house custodial service began to decline after 1980 on a yearly basis. Between 1978 and 1989, the State utilized both in-house as well as contracted custodial services. This provides an opportunity to compare the two modes of service provision.

The use of in-house staff, according to the Auditor's report, was initiated in the Capitol and Veteran's Memorial buildings and expanded in FY 1979-80 to include three other buildings. Between FY 1979-80 and FY 1989-90, in-house custodial staff cleaned five buildings, totaling 411,453 square feet, or 43.4 percent of the Capitol Complex, with a total of 15 custodians.⁷

Between FY 1979-80 and FY 1989-90, contracted custodial services cleaned 24 smaller buildings located on or near the Capitol Complex. There were five custodial contracting firms that were providing these services for 536,678 square feet, or 56.6 percent of the complex.⁸

All custodial contracts are for one-year terms, but can be extended two additional years with approval of both parties. The contracts require custodial contractors to furnish labor, equipment, supplies and materials as necessary for performance of custodial services for GSD. Specific cleaning requirements are detailed in the custodial contracts.

Newly-elected Governor Stan Stephens and his administration decided to extend privatization to all custodial services at the Montana State Capitol Complex starting July 1, 1989. This was based on a systematic analysis of the State's experience using both in-house and contracted services.

The Cost of Service

An evaluation by the State Auditor's Office of contracted and in-house custodial services concluded that it is beneficial to use contracted services on both a cost and quality of service basis.⁹ Table 3 shows that the average cost per square foot for in-house custodial service went down 3 percent from FY 1986-87 to FY 1987-88, while Table 4 illustrates that the average cost per square foot for contracted custodial service decreased 24 percent from FY 1986-87 to FY 1987-88. In comparing the two tables it can be seen that in FY 1986-87, the

average cost per square foot for contracted custodial services was 41 percent lower than the average cost per square foot for in-house custodial services. As for FY 1987-88, the average cost per square foot for contracted custodial services was 54 percent lower than the average cost per square foot for in-house custodial services.

Table 3. In-house custodial costs for fiscal years 1986-87 and 1987-88.

Expenditure Category	FY 1986-87 Actual	FY 1987-88 Appropriated
Personnel Services	\$270,760	\$271,040
Supplies	26,325	20,202
Other Expenses	8,980	7,349
Total In-House Cost	\$306,065	\$298,591
Square Footage Cleaned	411,453	411,453
Average Cost/Square Foot	\$0.7439	\$0.7257

Source: Performance Audit: General Service Division, Department of Administration, Audit Report No. 87P-41 (Helena, MT: Office of the Legislative Auditor of the State of Montana, June 1988), 20.

Table 4. Contracted custodial costs for contracted years 1986-87 and 1987-88.

	Contract Year 1986-87	Contract Year 1987-88
Total Contract Cost	\$230,641	\$179,612
Square Footage Cleaned	532,259	536,678
Average Cost/Square Foot	\$0.4333	\$0.3346

Source: Performance Audit: General Service Division, Department of Administration, Audit Report No. 87P-41 (Helena, MT: Office of the Legislative Auditor of the State of Montana, June 1988), 20.

Quality of Service

In 1988, the Montana State Auditor's Office conducted an examination of service quality provided by both in-house staff and contractors. The examination included reviewing GSD inspection documentation, conducting its own inspections using GSD inspection procedures, examining quality of services, and reviewing tenant complaints. The report concluded that private custodial contractors were providing a better quality of service overall.¹⁰

Custodial Costs

An analysis of in-house and contracted custodial costs, conducted by the office of the Legislative Auditor, indicated that it is cost beneficial to contract out custodial services.¹¹ As shown in Table 6, an estimated annual savings of \$121,042 is possible by using contracted custodial services. The bids for buildings that were previously cleaned by in-house staff are presented in Table 5.

Table 5. Bids for custodial services previously performed in-house.

Building	Annual Low Bid
Capitol	\$76,813.04
Mitchell	68,356.75
Labor and Industry	25,803.92
Memorial Building	29,112.62
Other Bids	2,197.85

Source: Jack Campbell, Bureau Chief, General Services Division, Department of Administration, State of Montana, Helena, personal interview, 24 January 1990.

Table 6. Annual savings through use of contracted custodial services.

Cost Savings Comparison	Amount
Projected FY 1989 In-house	\$302,625
Added Cost for FY 1990	+20,700
Projected FY 1990 In-house	\$323,325
FY 1990 Contracted Out	-202,283
FY 1990 Estimated Savings	\$121,042

Note: The contract cost per square foot is \$.14 higher than the rate used in the June 1988 audit report, or about \$60,411 higher per year, for the 431,508 square feet.

Source: Jack Campbell, Bureau Chief, General Services Division, Department of Administration, State of Montana, Helena, personal interview, 24 January 1990.

Competition and Price

Department officials believe the use of some in-house custodial services acts as a price stabilizer, keeping contracted custodial costs low, as contractors are concerned that the State will assume all custodial services. While it is true that contracted custodial costs have steadily declined over the past four years, contractors indicate this decrease is actually the result of competition between contractors and a decrease in the standard prevailing wage rate contractors must pay.¹²

According to Jack Campbell, Bureau Chief of the Montana General Services Division, some of the savings that are currently being achieved by the privatization of janitorial services can be attributed to the difference in wages between public and private employees.¹³ In Lewis and Clark County, private

employees are being paid \$5.12 per hour plus \$0.33 in benefits, totaling \$5.45 per hour. This requirement is set by the Department of Labor and Industry. As for state employees, Campbell said they are paid \$6.28 per hour plus \$1.96 in benefits, totaling \$8.24 per hour.¹⁴ The net difference in wages between state and private employees is \$2.79 per hour.

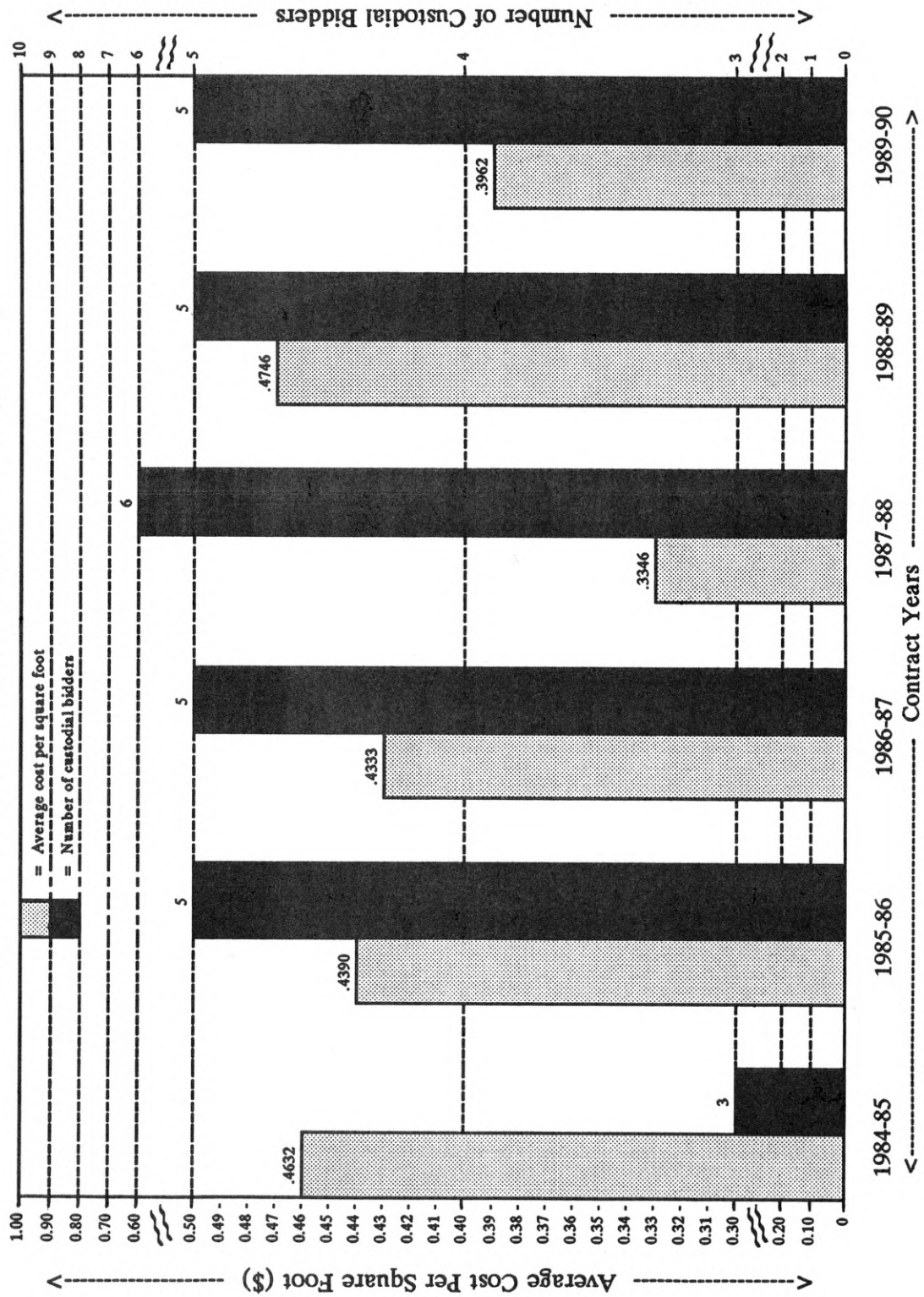
Figure 1 depicts the average cost per square foot for custodial contracts and the number of contractors bidding for the last six contract years. These data are based upon total contract costs and do not include GSD supervisory and overhead expenses which add approximately \$0.0261 per square foot. As Figure 1 shows, the overall cost of custodial contracts has steadily declined, while the number of contractors has generally increased.

The Final Push for Privatization of Custodial Services at the State Capitol

Based partly on this analysis, in June of 1989 the Stephens administration awarded two janitorial companies the bids to clean five of the office buildings in the Capitol Complex commencing July 1, the beginning of the 1990 fiscal year.¹⁵

The switch to private janitorial services meant laying off 15 state employees, according to Jack Campbell, Bureau Chief of the Montana General Services Division.¹⁶ As mentioned earlier in this chapter, retaining the 15 janitors as state employees would have cost \$323,325 in salaries, benefits, and other costs for fiscal year 1990. The bids awarded to two private firms to clean the same space will cost the State \$201,283.

Figure 1. Contracted custodial cost and bidding history.



Decision to Privatize

According to the literature, the adoption of privatization, or any initiative, should be based on an indepth evaluation taking into account many of the issues discussed in Chapter 4, such as advantages and disadvantages of privatization, market strength, political resistance, cost efficiency, quality of service, impact on employees, legal barriers, risk, resources, and control. In this case there is little evidence to suggest that these matters had any bearing on the final decision.

According to Victor Bjornberg, the governor's press secretary, the idea of contracting janitorial services was proposed and studied by the administration of the previous governor, Ted Schwinden, and implemented by Stephens.¹⁷ As shown above, the office of the Legislative Auditor, in June of 1988, conducted a performance audit of the Department of Administration, General Services Division. The study at the State Capitol Complex included an analysis of costs, the quality of service, and the General Services Division's monitoring of custodial services. Based on their results, the State Auditor's report recommended that the department procure contracted custodial services for those buildings that were being cleaned by in-house custodial staff.¹⁸

Apparently the adoption of privatization by Governor Stephens at the State Capitol Complex was a political-decision as much as a managerial decision. Privatization of government services was an issue throughout Governor Stephens' campaign; he believes in and is pushing for reducing the role and size

of government.¹⁹ Governor Stephens may have pushed for privatization because it reduces the size of government and not because it was recommended by a panel of experts (i.e., the 1988 Legislative Auditor's report).

Summary

This chapter reviewed the privatization of public sector janitorial services, focusing on the Helena, Montana case study at the State Capitol Complex. This chapter reviewed the history of privatizing custodial services at the Capitol Complex, analyzed cost delivery between in-house and contracted custodial services, and examined the quality of service delivered by in-house and contracted custodial services. This chapter also examined wage differences between public and private employees. Based on evidence provided and personal observation, privatization works, but the decision to proceed is often a political one, with little regard for possible managerial problems.

End Notes

¹Charles B. Blanart, "Bureaucratic Problems in Public Choice: Why Do Public Goods Still Remain Public?" in Public Finance and Public Choice, ed. K.W. Roshamp (Paris: Cujas Publishers, 1979).

²Jack I. Pasner, Statement, Hearings on Contracting Out of Jobs and Services, Subcommittee on Employee Ethics and Utilization, Committee on Post Office and Civil Service, House of Representatives, Serial No. 95-29 (Washington, DC: U.S. Government Printing Office, 1977), 14.

³Tom L. Peyton, Jr., "Standards for Public Building Maintenance," APWA Reporter 44, no. 10 (October 1977): 28-29.

⁴Charles Kaiser, "Custodial Services in Schools Termed Wasteful by Goldin," New York Times, 24 January 1977: 45.

⁵President's Commission on Privatization, Privatization: Toward More Effective Government, special report by Commission staff (Washington, DC: U.S. Government Printing Office, March 1988), 2.

⁶Performance Audit: General Services Division, Department of Administration, Audit Report No. 87P-41 (Helena, MT: Office of the Legislative Auditor, State of Montana, June 1988), 12.

⁷Ibid.

⁸Ibid.

⁹Ibid., p. 13.

¹⁰Ibid., p. 17.

¹¹Ibid., p. 20.

¹²Ibid., p. 18.

¹³Jack Campbell, Bureau Chief, General Services Division, Department of Administration, State of Montana, Helena, personal interview, 24 January 1990.

¹⁴Ibid.

¹⁵"Stan 'Privatizes' Janitor Service," Bozeman (MT) Daily Chronicle, 14 June 1989: 7.

¹⁶Campbell, interview.

¹⁷"Private Firms to Clean Buildings," Great Falls (MT) Tribune, 14 July 1989: 9A.

¹⁸Performance Audit, pp. 45-58.

¹⁹"Stephens Looks at Privatizing State Services," Bozeman (MT) Daily Chronicle, 11 October 1989: 2.

CHAPTER 6

CONCLUSION

Concluding Comments

Recent years have witnessed a surge of interest in privatization as a means of coping with public problems in the United States and elsewhere around the world. Public leaders have launched an intensive search for ways to reduce the scale of government activity and shift more of the responsibility for coping with public needs to the private sector. These actions have been prompted by public outcries over the burden of government taxation and new public choice economic theories stressing the inherent inefficiencies of government.

As diverse as they are, supporters of privatization are held together by a belief that the public sector is too large and that many functions presently performed by government might be performed more efficiently and economically by the private sector.

As indicated in Chapter 3, local and state governments across the nation, large and small, rural and urban, are increasingly turning to privatization in order to achieve cost savings; in the face of fixed or declining revenue they have found that a wide variety of privatization methods are available and that these techniques can be successfully applied to a wide range of public services.

The literature suggests that whatever its real or imagined benefits or drawbacks, privatization raises management problems that have so far attracted little serious attention. If, as seems most likely, privatization continues to grow in importance as a mechanism for handling public needs, these problems must be addressed, understood and resolved.

Government officials and administrators must be aware of the complexity of privatizing a service. They need to be aware of privatization's many advantages and disadvantages; they should not see privatization as a solution for all the problems of government. Privatization is not a panacea for government inefficiency and should be considered on a case-by-case basis. Privatization is capable of creating many problems if implemented without giving proper consideration to several factors identified throughout the literature on privatization as well as in Chapter 4 of this paper. Many government officials are wrong in believing that privatization eliminates the need for public management. Public management should be an ongoing process.

Privatization does not eliminate the need for public management; it only changes its character. As long as public funds or authority are involved, public accountability and control are essential. Even in areas where privatization is appropriate, government reliance on the private sector to assist in providing public services does not reduce governmental responsibility for the result. Where public funds or public authority are involved, the public will appropriately hold government officials responsible, regardless of the form of public

action that is used. This means that public officials must find ways to ensure appropriate performance on the part of their private partners.

The forms of public management required under privatization differ significantly, however, from those in more traditional direct government services. Internal agency budgeting, organizational structure, administrative mechanisms, and personnel administration become less important, for example, when much of the work is being performed by independent private firms. To manage under these circumstances, public managers must learn how to monitor contracts, to bargain, to create incentives for compliance without discouraging participation, to promote competition among potential suppliers, to ensure adherence to public objectives when significant shares of discretionary authority are vested in partners whose principal objective is private gain, and to anticipate details and pitfalls of program operations sufficiently in advance to build these into the contract governing the relationship with the private agent. There seems to be a good deal of evidence suggesting that Montana's Governor Stephens' decision to privatize janitorial services at the State Capitol Complex gave little or no consideration to managerial issues.

Many of the problems that have confronted privatized janitorial services at the State Capitol Complex in the past, and more than likely will confront it again in the future, can be attributed to not giving enough consideration to managerial issues and managerial problems by previous state government officials.

As discussed in Chapter 5, prior to 1978, all custodial services at the Montana State Capitol Complex were provided by private janitorial companies. Between 1978 and 1989, the State utilized both in-house as well as contracted custodial services. As of July 1, 1989, all custodial services at the Montana State Capitol Complex were contracted out to private janitorial companies. In all three cases the two main reasons for the switch from private to public/private, and back to private janitorial services were quality of work and cost of service. It is my belief, based on literature review and personal interviews and observations, that with proper management the State would not need to go back to in-house custodial services a few years from now. Just because the State has privatized its custodial services, that should not stop it from managing private firms in order to ensure that specific objectives are met. According to a 1988 report by the Montana State Auditor's Office, these issues, as well as how best to utilize custodial services at the Montana State Capitol Complex, were proposed in recommendations to the Director's Office of the Montana Department of Administration. Based on different grounds, ranging from political to economic, most of the recommendations were rejected. Privatization can only work if applied properly, i.e., without proper investigation into all aspects of privatization and proper management, privatization may be doomed to failure.

Based on this case study, privatization works. However, in the long run, the State should be aware that there are hidden costs that should be taken into consideration.

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APPENDICES

APPENDIX A:
PRIVATIZATION OF STATE EXECUTIVE
AGENCY FUNCTIONS

Table 7. States that have contracted private services, by executive agency department.

Service Contracted	States That Have Contracted
Department of Administration	
Facility or property management	Maine, Tennessee, Colorado, Ohio
Asbestos removal	Maine, Colorado
Custodial service	Maine, Idaho, Nebraska, Louisiana, South Dakota, Montana, Colorado, Utah, Wisconsin, North Carolina, Oklahoma, Pennsylvania, Oregon, California, Connecticut, Alaska
Security	Louisiana, West Virginia, Idaho, Colorado, Tennessee, California, Connecticut
Claims examination in auto property liability	Wisconsin, Colorado
Elevator maintenance	Louisiana, Colorado, South Carolina
Garbage/trash removal	Colorado, Nebraska, Louisiana
Pest control	Colorado, Nebraska
Parking lots	Nebraska, Connecticut
Leased space	South Dakota, Colorado
State museum	South Carolina
Snow removal	South Dakota, Colorado
Building/equipment inspections	Wisconsin
Energy weatherization	Wisconsin, Colorado, Illinois
Printing services	South Dakota, Montana, Colorado, Illinois, Wisconsin, California
Architectural services	Most states contract for services -- including California, Illinois, Florida, Colorado, Nevada

Table 7--Continued.

Service Contracted	States That Have Contracted
Computer maintenance	Utah, Colorado
Computer systems design	Montana, Maine, Colorado
Building construction	Utah, Wisconsin, Colorado, Ohio, Illinois, California
Building maintenance	Tennessee, Colorado (contracts for some of these services)
Technical consulting	Colorado, Florida, Michigan
Engineering services	California, Colorado, Florida
Mailroom	Wisconsin, Colorado
Telecommunications	Colorado, Wisconsin, West Virginia, Maine
Data processing	Most states contract for data processing services -- including Alaska, Colorado, Maine, California
Auditing	Alaska, Colorado, Wisconsin
Accounting	Alaska
Day care for state employees	Maine
Planning	California
Central drug warehouse	Michigan (warehouse for all state agencies)
Keypunch	Wisconsin, Colorado
Employee benefits administration (trust funds)	Colorado, Wisconsin
Vehicle maintenance	Wisconsin, Colorado
Department of Agriculture	
Testing and vaccination of livestock	Virginia, Colorado, New Jersey
Research station	Michigan; not applic. to Colorado

Table 7--Continued.

Service Contracted	States That Have Contracted
Printing	Colorado, Wisconsin
Veterinarian service	Colorado, Wisconsin
Administrative support	New Jersey
Horse Program	Michigan (grant)
Future Farmers of America	Michigan (grant)
Custodial	Colorado, Wisconsin
Accounting	New Jersey
Marketing to promote products/ advertising	Wisconsin, New Jersey, Colorado
Data processing/data management	Wisconsin, New Jersey
Inspections	Colorado, New Jersey
Testing	Colorado, New Jersey
Building maintenance	Colorado, New Jersey
Department of Corrections	
Food services	Idaho, Connecticut
Prison construction and/or operations	Missouri, Florida, Pennsylvania, Kentucky, Texas, Colorado, Maine, California, Tennessee, Minnesota (lease/contract), New Mexico
Detention facilities (construction and/or operations)	Arizona, Texas, California, Illinois, Tennessee, Minnesota
Transportation of prisoners	Maryland, Colorado (contracts for some of these services)
Work release centers	Illinois, California, Florida, New Jersey, Alaska
Reservation service provided to private sector	Arizona, Oklahoma (partnership)

Table 7--Continued.

Service Contracted	States That Have Contracted
Manufacturing for private sector	Minnesota, Kansas (partnership), Colorado
Inmate hiring by private sector	Mississippi, Missouri, Washington (partnership)
Sale of correctional industry	Utah (partnership), Colorado
Correctional industries	Alaska, Florida, Oklahoma, Utah Arizona, Mississippi, Kansas, Washington
Surplus property auctions	Utah
Surplus property sale	Connecticut, California, Illinois, New York, Pennsylvania
Private jail operation/construction	Being considered in Arizona, California, Connecticut, Indiana, Kentucky, Maryland, Colorado, New Jersey, Oklahoma, Montana, New Mexico
Private jail construction	Montana
Prison construction management	Michigan, Colorado
Parole services	Illinois
Prison operation	New Mexico
Pharmacy	Michigan
Health/medical care (partial care)	40 states -- including Michigan, West Virginia, New Jersey, Alaska, Illinois, Wisconsin, Florida, Colorado
Health/mental care (all care)	Alabama, Arkansas, Colorado, Maryland, Delaware, South Carolina
Trash removal	Michigan

Table 7--Continued.

Service Contracted	States That Have Contracted
Prison industries markets products using private retailers	Montana (partnership)
Laboratory	Colorado, Michigan
Alcohol and drug treatment	Connecticut, Colorado, Wisconsin, New Jersey
Inmate training	Colorado, Wisconsin
Health services	Wisconsin, Michigan, Colorado
Clinical assistance	Michigan
Employee training	Michigan
Data management	New Jersey
Department of Education	
Transportation for deaf or blind schools	Utah; in Colorado local school districts provide this service
Data processing	Colorado, Wisconsin
Test scoring/administration	Colorado, Wisconsin, New Jersey, Michigan
Special services for handicapped disorders	Delaware, Colorado
Regional libraries	New Jersey, Colorado
Public education (potential)	Vermont, Minnesota, Connecticut (vouchers)
Private teachers	Minnesota
Disability determinations	Colorado, Michigan
Medical report typing	Michigan
Loan servicing	Michigan
Testing of teacher competency	Colorado, Wisconsin

Table 7--Continued.

Service Contracted	States That Have Contracted
On-line cataloging	Wisconsin
Administration support	New Jersey
Statewide data base for libraries	Wisconsin
Laundry services for schools for deaf or blind	Wisconsin
Technical consulting	Colorado, New Jersey
Printing	Colorado, New Jersey
Economic development data processing	Wisconsin
Economic development	Wisconsin (subsidy)
Department of Health	
Air quality	Maine, Colorado
Drug and alcohol abuse treatment programs	Delaware, Colorado, New York, Idaho, Iowa, Illinois, New Jersey, Alaska
Environmental health (includes hazard detection)	Ohio, New Jersey
Lead poisoning	New Jersey
AIDS program	Colorado, New Jersey
Toxic waste cleanup	New Jersey
Wastewater treatment	Utah, South Carolina, Arizona, New Jersey, Tennessee, Colorado, California
Construction	New Jersey
Food services	Michigan
Laboratory	Michigan, Colorado, New Jersey
Research	Colorado, New Jersey

Table 7--Continued.

Service Contracted	States That Have Contracted
Refugee health programs	New Jersey
Auditing	Michigan
Data encoding	Michigan
Waste to energy facilities	Connecticut
Resource recovery	New Jersey
Department of Higher Education	
University bookstores	Virginia
State stopped collecting default student loans for private sector	Wisconsin (service shedding)
University hospital leased to private sector	Kentucky (lease)
Program evaluations	New Jersey
Loan management	New Jersey
Food services	Virginia
Bus service at state university	North Carolina
Data management	Colorado, New Jersey
Custodial services at state universities	North Carolina, Oregon
academic grant programs	New Jersey
Educational opportunity grants	New Jersey
Educational conferences	New Jersey
Department of Highways	
Road and bridge construction	Most states contract for highway construction -- including Idaho, Wisconsin, Colorado, Utah, Montana, Michigan, Wisconsin, New Jersey, Connecticut

Table 7--Continued.

Service Contracted	States That Have Contracted
Grass mowing	North Carolina, Wisconsin
Overlay projects (resurfacing)	Colorado, New Mexico
Snow removal	Wisconsin
Mass transportation project	District of Columbia, Virginia (partnership)
Highway design	Colorado, New Jersey
Data entry	Michigan
Inspection	New Jersey
Highway project toll road	North Carolina, California, Texas, Virginia
Private highway	Virginia (service shedding)
Building maintenance	Michigan
Highway maintenance	Alaska, New Jersey, North Carolina, Utah
Highway sweeping	Washington
Technical consultants	Colorado, New Jersey
Mass transit-monorail	Massachusetts (potential subsidy)
Rest area maintenance	Colorado, North Carolina
Custodial	Colorado, North Carolina
Transportation design services	California, Colorado
Research	Colorado, New Jersey
Draw bridge operation	North Carolina
Road kill pickup	Wisconsin
Rail service	Connecticut (subsidy)

Table 7--Continued.

Service Contracted	States That Have Contracted
Department of Institutions	
Pharmacy services for clients in institutions	Virginia, Colorado, Montana
Juvenile corrections (construction)	Colorado, Tennessee
Management of facilities	Florida, Michigan, Oklahoma, Massachusetts, Rhode Island, Tennessee, Washington, Utah, New Mexico, New Jersey, Texas, Pennsylvania, Arizona, California
Youth group homes	Utah, Colorado (contracts for some of these services)
Services for youth	North Dakota, Colorado, Florida, New Jersey, Montana
Case management of mentally ill	Delaware, Colorado, Alaska
Developmentally disabled services	North Dakota, Ohio, Colorado, Arizona, Illinois, Delaware, Connecticut
Operation of juvenile facilities	Colorado, Washington
Custodial	Ohio
Administrative services	Ohio
Mental health care services	Arizona, Illinois, Michigan, Kentucky, Colorado, Delaware, Florida, Texas, New Jersey
Laundry services	Wisconsin, Michigan, Colorado, California
Food services at institutions	West Virginia
Management of state hospitals	Florida
Medical services at institutions	Iowa

Table 7--Continued.

Service Contracted	States That Have Contracted
Judicial	
Public Defender services	Delaware, Wisconsin
Expert witnesses	New Jersey
Court reporting	Wisconsin, Illinois, New Jersey, Colorado
Restitution centers	Alaska
Administrative support	New Jersey
Program evaluation	New Jersey
Private attorneys	New Jersey, Wisconsin
Civil court services (alternative dispute resolution)	California, New York
Minor (misdemeanor) probation services	Florida
Department of Labor and Employment	
Job training	Wisconsin, New Jersey, Illinois (grants), Massachusetts (vouchers)
Professional development	New Jersey
Medical consultants	New Jersey
Private workers' compensation insurance	Colorado, Wisconsin
Fair housing information/inspection	Wisconsin
Employment programs	Illinois
Work release programs	Illinois
Labor relations	Michigan
Printing (some)	Illinois
Clerical services	Wisconsin
Public relations	Wisconsin

Table 7--Continued.

Service Contracted	States That Have Contracted
Custodial	Wisconsin
Audio/visual equipment	Wisconsin
Department of Law	
Private attorneys	Montana, Colorado, Nevada
Attorney General services	Alabama
Expert witnesses	Colorado, Michigan, New Jersey
Court reporters	Michigan
Legislature	
Auditing service for local governments	Colorado, Wisconsin
Auditing of state grants to local governments	Wisconsin
Auditing of state agencies	Colorado
Contracting for technical assistance	Colorado
Audit training	Colorado
Department of Local Affairs	
Tourism/advertising	Alaska, Colorado, New Jersey, Wisconsin
Visitor information centers	North Carolina
Property assessments	Wisconsin (service shedding)
Property assessment computer systems	Wisconsin
Data management	New Jersey
Telephone hotline (community affairs)	New Jersey
Custodial	Michigan, New Jersey
Snow removal	Michigan

Table 7--Continued.

Service Contracted	States That Have Contracted
Building security	New Jersey
Department of Natural Resources	
Parks and recreation concessions	Idaho, Delaware, New Mexico, Tennessee
Forest management	Michigan
Technical assistance	Michigan
Fish hatcheries	Alaska
Solid waste to energy	Connecticut, South Carolina
Park maintenance and management	Alaska, Utah, West Virginia
Trash collection	Wisconsin
Park reservation system	California, Utah
Park security	Wisconsin
Data keypunch	Michigan
Pesticide applications	Wisconsin
Custodial	Wisconsin
Construction	Alaska, Colorado
Department of Personnel	
Personnel management	Maine
Training (specialized)	Colorado, Maine, New Jersey, Wisconsin
Arbitration	New Jersey
Employee health and assistance programs	Maine
Administer written tests	Illinois, Michigan, New Jersey, New Mexico
Legal reporting services	Colorado, Illinois, Michigan

Table 7--Continued.

Service Contracted	States That Have Contracted
Custodial	New Jersey
Printing	Colorado, New Jersey
Data management	Colorado, New Jersey
Department of Public Safety	
Data processing management	Colorado, Michigan, New Jersey
Custodial	Michigan
Communications maintenance	Michigan
Police training	New Jersey
Vehicle maintenance	New Jersey
Microfilming	New Jersey
Technical consultants	New Jersey
Weather information	Wisconsin
Audits of motor carrier records	Wisconsin
Insurance commissioner, administrative	Wisconsin
Testing of insurance agents	Wisconsin
Risk sharing plan	Wisconsin
Actuarial services	Colorado, New Jersey, Wisconsin
Property insurance	Wisconsin
Purchase of some exams and exam administration	Michigan, Wisconsin
Record retrieval	Michigan
Medical Board administration	Michigan
Vehicle towing	Connecticut (franchise)
Rail service	Connecticut (subsidy)

Table 7--Continued.

Service Contracted	States That Have Contracted
Public utilities	Connecticut (franchise)
Motor carrier industry	Arizona, Florida, Kansas, Maine, Wisconsin (deregulation)
Transportation deregulation	Arizona
Department of Revenue	
Out-of-state tax collections	Wisconsin
Emission controls	Connecticut (franchise), Wisconsin
State liquor stores	Iowa, Idaho (service shedding)
Liquor prices	Kansas (deregulation)
Private collection agencies	Oregon
Inspection stations	New Jersey
Motor vehicle licensing	New Jersey
Tax collections	Michigan
Department of Social Services	
Refugee services	Colorado, Virginia
Computer services	Michigan, New Mexico
Data management	New Jersey
Pharmaceutical	New Mexico, Pennsylvania
Pharmaceutical claims processing	Pennsylvania
Pharmaceutical at state nursing homes	Delaware
Adoption programs	Illinois
Congregate meals for the elderly	Delaware
Physician services for state nursing homes	Delaware
Food stamp issuance	Michigan

Table 7--Continued.

Service Contracted	States That Have Contracted
Teen pregnancy prevention	Illinois
Payment of medical claims	California, Delaware, Wisconsin
Health maintenance organizations	Wisconsin
Audits	Colorado, New Jersey
Welfare services	New Jersey
Infant mortality reduction	Illinois
Day care	Illinois, Maine, Massachusetts, New Jersey (vouchers)
Family planning services	Colorado, Delaware
Child care	California, Michigan
Child welfare	Michigan
Child and family care	Texas
Foster care	Illinois, Nevada
Occupational therapy at state nursing homes	Delaware
Medicaid services	Colorado, Connecticut, Illinois, Michigan
Services for disabled	New Jersey
Food service at state capitol	Colorado, Oklahoma, South Dakota
Food services	Colorado, Utah
Vocational rehabilitation services	Colorado, Wisconsin
Custodial services	Delaware
Family assistance management information systems	Florida
Department of State	
Microfilming	New Jersey

Table 7--Continued.

Service Contracted	States That Have Contracted
Department of the Treasury	
State Treasury	Wisconsin
Data management	New Jersey
Technical consultants	New Jersey
Custodial	New Jersey
Automated collection systems	Michigan
Property management	New Jersey

Source: Privatization in Colorado State Government: Performance Audit, Report of the State Auditor, Denver, CO, March 1989.

APPENDIX B:
CITIES AND COUNTIES THAT CONTRACT
FOR SERVICE PROVISIONS

Table 8. Cities and counties that contract for service provisions.

Service	Percent Contracting*	Major Suppliers
Public Works and Transportation		
Commercial solid waste collection	41	B
Residential solid waste collection	34	B
Tree trimming/planting	30	B
Solid waste disposal	26	B
Street repair	26	B
Traffic signal installation	25	B
Snow plowing/sanding	14	B
Parking lot/garage operation	11	B
Street parking/lot cleaning	9	B
Inspection/code enforcement	6	B
Meter maintenance/collection	5	B
Public Utilities		
Street light operation	38	B
Utility billing	12	B
Utility meter reading	9	B
Safety and Recreation		
Vehicle towing and storage	78	B
Ambulance service	23	B
Emergency medical service	13	B
Recreational services	13	N
Operation of libraries	10	N
Operation of recreational facilities	9	N
Parks landscaping maintenance	9	B
Crime prevention/control	5	Neighbrhds
Fire protection/suppression	3	N

Table 8--Continued.

Service	Percent Contracting*	Major Suppliers
Police/fire communication	3	N
Traffic/parking enforcement	1	B/N (tied)
Support Services		
Legal services	48	B
Fleet management (heavy equipment)	31	B
Fleet management (emergency vehicles)	30	B
Fleet management (all others)	28	B
Labor relations	23	B
Data processing	22	B
Tax bill processing	22	B
Building/grounds maintenance	19	B
Payroll	10	B
Delinquent tax collection	10	B
Building security	7	B
Public relations/information	7	B
Tax assessing	6	B
Personnel services	5	B
Secretarial services	4	B

*This column shows the percentage of localities providing a service contract with the major suppliers; either businesses (B), nonprofit organizations (N), or neighborhood groups (for the service of crime prevention).

Source: *The Decline of Milltowns in the Monongahela Valley*, joint study by School of Urban and Public Affairs, Department of Social and Decision Sciences, and Department of Engineering and Public Policy, Carnegie-Mellon University, Pittsburgh, PA, April 1987.

APPENDIX C:
CONTRACT COSTS FOR MONTANA STATE
CAPITOL COMPLEX BUILDINGS

Table 9. Contract costs for Montana State Capitol Complex buildings:

Building	Janitorial Sq. Ft.	Service Master	Davis Maint.	Bompart Cleaning	Conner Construc.	Airkem Contract	Janitorial Per Sq.Ft.
Institutions	27,790	\$ 8,823.32					\$0.32
Public Instruction	20,000	6,492.00					0.32
Commerce	27,840	8,700.00					0.31
Capitol	163,432	76,813.04					0.47
Cogswell	78,153					\$27,455.28	0.35
Justice	85,719			\$20,401.12			0.24
920 Front	16,257		\$ 9,266.49				0.57
Memorial	88,758			29,290.14			0.33
Mitchell	128,975	68,356.75					0.53
Scott Yard	72,995		24,424.13				0.33
SRS	47,590		17,008.67				0.36
Boiler Plant	722			1,198.52			1.66
Capitol Annex	1,460					975.96	0.67
Livestock	7,680				\$ 3,988.00		0.52
Board of Health	7,680			3,860.36			0.50
Executive Residence							
Star Motel	939					768.98	0.82

Table 9--Continued.

Building	Janitorial Sq. Ft.	Service Master	Davis Maint.	Bompart Cleaning	Conner Construc.	Airkem Contract	Janitorial Per Sq.Ft.
Diane Building	5,759			\$ 2,395.74			\$0.42
1236 - 6th Avenue	2,770			1,373.92			0.50
1205 - 8th Avenue	2,004	\$ 1,503.00					0.75
1209 - 8th Avenue	2,280	1,710.00					0.75
1215 - 8th Avenue	886	1,082.50					1.25
1219½ - 8th Avenue							
1225 - 8th Avenue	902		631.40				0.70
326 Washington							
Records Management	4,899				2,398.00		0.49
1410-1412 - 8th Avenue	3,565		2,032.05				0.57
Org. Gov. Mansion							
1400 - 8th Avenue							
1404 - 8th Avenue							
4-Plex Garage							
1425 - 9th Garage							
Property & Supply							
New Liquor Warehouse							

Table 9--Continued.

Building	Janitorial Sq. Ft.	Service Master	Davis Maint.	Bompart Cleaning	Conner Construc.	Airkem Contract	Janitorial Per Sq.Ft.
Metcalf Building	89,765				\$27,378.00		\$0.30
F,W,P	21,670			\$ 6,132.61			0.28
Labor and Industry	49,621	\$ 25,803.92					0.52
Teacher's Retirement	6,431					\$ 2,173.55	0.34
Totals	967,639	\$199,284.53	\$53,362.74	\$64,652.41	\$33,764.00	\$31,374.77	\$0.40