THE ELEMENTS OF SUCCESSFUL PRIVATIZATION PLANS

A graduate project in partial fulfillment
Of the requirement for the degree of
Master of Public Administration

by

Jason M. Perez

May 2002
The graduate project of Jason M. Perez is approved:

Mehran Kamrava, Ph.D.  

Christopher A. Leu, Ph.D.  

Warren M. Campbell, Ph.D., Chair

California State University, Northridge
DEDICATIONS

The material contained herein would never have seen the light of day without the kindness, support, and sacrifice of the individuals listed below. Without further adieu, I would like to offer my humble thanks to:

My parents, Lauren and Larry Perez, for their encouragement.

My brothers, Josh and Justin, for their friendship and support.

Warren Campbell and Christopher Leu, for their wisdom and generosity.

My wife Nicole, for her unwavering devotion, and without whom this study could not have been completed.

My daughter Liah, for inspiring me to achieve.
TABLE OF CONTENTS

Signature Page ................................................................. ii
Dedication ................................................................. iii
Abstract ............................................................... vi

Chapter One ................................................................. 1
Introduction ................................................................. 1

The Definition Debate .......................................................... 3

Chapter Two ................................................................. 5
Privatization Throughout United States History ........................................ 5

Identifying the Problem ........................................................... 9

Chapter Three ................................................................. 11
Commonly Employed Types and techniques of Privatization .................................. 11

Chapter Four ................................................................. 18
Privatization Works: The Arguments .................................................... 18

Chapter Five ................................................................. 25
Arguments Against Privatization ........................................................ 25
Non-Finance Related Arguments Against Privatization ........................................ 30

Chapter Six ................................................................. 32
Constructing an Effective Privatization Plan ............................................... 32

Decisions, Decisions: What Do We Privatize? ................................................ 34

Building a Consensus .............................................................. 35
Measuring the Cost of a Government Service ............................................... 38

Sizing Up the Competition ........................................................... 40
ABSTRACT

THE ELEMENTS OF SUCCESSFUL PRIVATIZATION PLANS

by

Jason M. Perez

Master of Public Administration

This graduate project explores the history of privatization at the local level in the United States and outlines arguments for and against utilizing private firms for the provision of local public services. Subsequent to this careful analysis, this study will outline privatization practices most commonly employed at the municipal level and analyze their effectiveness.

After establishing the appropriate background, the focus will shift to a small-scale privatization effort carried out by a Division of Los Angeles' General Services Department that failed miserably. By drawing from the successful elements of the privatization plans analyzed earlier in the study, and comparing them with the inadequacies of the General Services effort, it is hoped that students of privatization will gain valuable insight into the process. Finally, and most importantly, the author will present a general plan that municipal officials can follow to increase the chances that their privatization programs will be successful.
CHAPTER ONE

INTRODUCTION

From the beginnings of recorded history, and probably long before, men and women have relied upon the leaders of their clans, villages, towns, and cities to steer them towards a brighter future. The special relationship that exists between people and their municipal government is as strong today as it has ever been, for a variety of reasons. Basically, as societies have grown in size and complexity, regional and national government agencies seem far removed from the lives of most citizens. In fairness, these levels of government are faced with the impossible tasks of regulating virtually every aspect of life in a manner that will be acceptable to many millions of people.

The close relationship between citizens and municipalities has endured for several reasons. To begin with, the local government is in close proximity to the homes and businesses of those it serves. As such, municipalities are the mechanism of choice for the provision of many of the services valued most in today's populous and rapidly changing societies. Further, citizens have greater access to municipal governments, and a more realistic chance to effect changes in their community by lobbying the officers of municipal government.

Municipalities have played an integral role in providing public services to the citizens of the United States since the nation's infancy. Although cities have continued to perform many of the services desired most by the American people, the last one hundred years has brought sweeping changes to the structure and function of municipal
governance. America's city governments are called upon to resolve more complex problems than ever before, with far fewer financial resources than in the past. Many municipalities have begun to question their role in providing public services, and entertained a plethora of innovative means of alternative service delivery strategies, particularly privatization.

In response to rising public service demands amidst stagnant tax revenues, localities throughout the United States have embraced privatization of all types with open arms. In fact, the use of private firms to participate, in whole or part, in the provision of a public service has become so widespread, very few municipal government services are not privatized in some form in the United States.

Just what is privatization really? Is it a panacea for all the financial predicaments that have befallen municipal governments or snake oil that creates new problems in solving the old ones? Are municipal governments racing to privatize public services without first considering whether particular services should be privatized, how they should be privatized, and how to ensure the public will benefit from privatization in the short and long terms? The following study will attempt to discover the answer to these challenging questions.

Through examination of various scholars' definitions, an operational definition of privatization for the purposes of this study will be provided. Some forms of privatization common to the municipal level of government will be described, and careful consideration of the arguments for and against the privatization of local services will be used to illustrate the philosophies behind the divestiture of many services recently
provided by government. Finally, by analyzing relevant case studies, it is hoped that a determination of how to make privatization more effective can be made.

This opening chapter will seek to provide an operating definition of the term *privatization* that takes into account government's role in monitoring the provision of public services provided by private firms. In chapter two, the history of privatization in the United States will be briefly outlined, to give the reader a backdrop against which to view privatization's current status. The second goal of chapter two is to define the problem facing many American cities. The third chapter will define and explain some of the more common types of privatization used by municipalities.

Chapter four will break down the arguments put forth by proponents of privatization, and chapter five will explore the views of those opposed to it. The sixth chapter in this study will examine specific cases where local governments privatized a service, and determine what aspects of the process were successful or unsuccessful. Finally, the seventh chapter will outline a method local governments can follow to ensure the privatization of a service meets their needs before and after they cease to provide it in-house. In this final chapter, the City of Los Angeles' General Services Department, which is in the process of contracting out its vehicle towing services, will be used to exemplify the effectiveness of the proposed privatization method.

**THE DEFINITION DEBATE**

There seems to be very little agreement among scholars in terms of assigning a definitive meaning to the term *privatization*. Dudek, for example, defines privatization as
“the attainment of any public policy goal through the involvement of the private sector” (Dudek 1988, 7). Roger Kemp’s definition is equally broad. He interprets privatization as, “private sector involvement in financing, design, construction, ownership, and/or operation and delivery of service to the public” (Kemp 1991, 25).

George W. Wilson of the Indiana University School of Business follows suit. He writes, “the broader and more relevant meaning of privatization must refer to nothing more or less than greater reliance upon market forces to generate production of particular goods and services” (Kemp 1991, 99). Definitions of such broad scope fail to consider the aftermath of privatization. Specifically, their market focus fails to call into question whether a particular service should be privatized, whether or not the public will receive the same service levels, and how to properly structure the privatization agreement.

For the purposes of this study, a more narrow definition of the term privatization is desirable. Specifically, privatization in this context is the introduction of competition into the provision of public services to ensure the public receives efficient service without compromising quality. This definition provides the appropriate frame of reference within which to view the guidelines the author will propose that local governments follow to successfully privatize a service.
CHAPTER TWO

PRIVATIZATION THROUGHOUT UNITED STATES HISTORY

Despite being touted as an innovative management tool, and the exponential use throughout the globe over the last two decades, privatization is by no means a new idea. Governments have employed mercenaries to defend their homelands and pursue territorial expansion against neighboring states for ages. Colonial powers have also done a fair amount of "contracting out", using explorers and adventurers to search the globe for uncharted lands, unclaimed riches, and untapped natural resources.

The United States, although relatively young as nations go, has done a fair share of experimentation with privatization since its infancy. Large-scale government projects have generally been completed by private firms throughout American history. During this period, the Federal government simply did not have the financial wherewithal to keep pace with the rapidly expanding nation. As such, during the 1800s, cities nationwide were granted franchises for the provision of fixed rail and waterway transportation. More recently, exclusive license has been granted to private firms to provide essential public services such as electricity and gas to specific geographic reasons.

In the days before "big government" bureaucracy, privatization not only worked well, it played a vital role in America's ability to make the push towards industrialization. In fact, until "the first decade or two of the 20th century, transit systems, waterways and many other services usually thought of today as being provided solely by municipal governments were often private enterprises holding public franchises" (Darr 1987, 2).
Unfortunately, corrupt practices in the awarding of private contracts led to demands for reforming the privatization process during the late 19th century. Public outrage over the issue gave rise to the immense, centralized bureaucracies that we are all too familiar with today. The professionalism of its staff, and the fact that agency records would be made available to public viewing made the bureaucracy an innovative proposition. Of course, taking the profit motive out of public service was believed at the time to be the best way best meet public needs and demands.

Ironically, despite this fervor, privatization never totally disappeared from America's political landscape. Indeed, "the not for profit sector was relied upon long before government entered traditionally not for profit services like education, medical care, and other charitable social services" (Bernstein and Raphaelson 1987, 15). Not for profit firms generally have a longer time frame in which to operate than public agencies, whose leaders always have their eye on the next election campaign.

Not for profits also tend to be more responsive to the needs of the communities they serve, and frequently employ members of their constituency. It is precisely this level of responsiveness to public needs that increased America's reliance on not for profit firms to provide public services during the development of Lyndon Johnson's "Great Society" during the 1960s. As Bernstein and Raphaelson so eloquently point out in *Restructuring State and Local Services: Ideas, Proposals, and Experiments*:

In the late 1960s, with the advent of the Great Society programs, nonprofits were viewed as a means of quickly increasing the volume and diversity of social services. New agencies with different ideas and a different workforce could compete with or even replace direct government provision (Raphaelson 1998, 15).

A mere decade later, the focus of governmental reliance on the responsiveness of not for profit firms shifted to their ability to provide services at lower cost than public
agencies could. This philosophical shift occurred for several reasons, among them increasing unionization of public employees, rising public sector salaries, and taxpayer disenchantment.

As the nation progressed through an energy crisis, economic difficulties, and a tremendous increase in government payrolls, Americans developed a hostile attitude towards their governments. Constituents began to demand higher service levels from their municipal governments and rebel against their levels of taxation. Eventually, this public disdain manifested itself in the form of legislation. Some examples include California voters’ approval of Proposition 13, which placed a cap on property taxes and Congress’ passage of the Gramm-Rudman-Hollins Amendment, aimed at “restricting federal spending in hopes of achieving a balanced budget” (Munoz 1998, 2).

Public opinion, coupled with the Reagan administration’s effort to cut the size of government bureaucracies forced government agencies to either look for new ways of delivering services or go out of business. As America slid into a recession during the early 1990s, tax revenues continued to be woefully inadequate to fund the bureaucracies that had arisen in most American municipalities. Privatization exploded throughout the world as America’s slowdown affected foreign economies. Great Britain’s successful experiment has caught on and many developing countries chose to privatize their state-owned-enterprises.

World Bank figures show that “over “8,500 state-owned-enterprises in more than 80 countries” (www.worldbank.org) were privatized between 1980 and 1992. Examples include the sale of Malaysia’s national lottery, Buenos Aires’ zoo, and the Chilean Telephone Company (www.worldbank.org). Clearly, developing and developed
countries alike have utilized privatization in all sectors of the economy with some degree of success.

A study done by the World Bank of twelve instances in 4 countries indicates that in only one instance did the removal of government from the provision of the services studied did not lead to faster growth and higher productivity. All of these examples, however, occur on a macro level where government agencies tend to get unwieldy. The focus of this study is developing a successful and cogent privatization scheme for use by governments at the local level. Unfortunately, some localities have compared apples and oranges by likening the success of privatization efforts conducted by large state owned enterprises to the potential success of their own bungled privatization projects.

In response to these fiscal pressures, many American localities chose to divest themselves of costly public services. As Henry Gibbon of the Reason Public Policy Institute explains, “recent municipal sales have included golf courses, power plants, and wastewater treatment plants.” Mayors and City Managers throughout the nation have extended the scope of the privatization effort to include almost every public service imaginable, including prison management, airports, and refuse collection. The philosophy behind this rapid shift towards privatization will be examined in depth in the next chapter. For the present, let it be stipulated that privatization has spread worldwide, generally in response to fiscal pressures and general inability to meet increased demands for service by expanding populations.
IDENTIFYING THE PROBLEM

There is a voluminous amount of evidence that shows privatization works, given the right circumstances and careful planning. There are, however, a number of recent privatization efforts that have failed in the United States due to the lack of careful consideration given to many elements of the process. Cash strapped local governments have raced headlong into the privatization of a great many services without implementing the methodology to ensure citizens continue to receive comparable levels of service. The City of Los Angeles General Services Department committed just such an error in contracting out part of its towing operation, which will be discussed in detail in a later chapter.

As was mentioned earlier, privatization takes many forms. There are countless examples of instances where public service providers seeking to remove themselves, in whole or part, from the provision of a service did not properly consider the form of privatization most beneficial to the particular case. Service providers also failed to consider the true costs of privatization in a number of cases, or divested themselves of the means to reenter the provision of a service if the contractor or other new provider proved unreliable.

The thrust of the argument presented in this graduate project is not that privatization does not work. It is, rather, an effort to discover a method that government bodies can use to ensure that careful consideration is given to all of the factors that lead to successful privatization efforts where local services are concerned. After all, unless government removes itself completely from the funding, provision and regulation of a
public service it has a duty to ensure that constituents receive ample benefits for their tax dollars.

The issue is really a question of the very nature of government, specifically the activities it should or should not be involved in. Should government focus on "rowing", or funding programs based upon the number of clients they have? Or should government be "steering", which implies a preventative funding strategy. Or should government do neither, steering clear of providing any service already being offered by a private entity? While there are no easy answers to these questions, they place the problem in proper context by forcing government agencies to reevaluate their purpose.

Many sources seem to indicate an over-reliance on market forces to produce public goods in today's society. While privatization can yield substantial benefits for struggling local governments, it is not necessarily the case that the private sector is always the best choice for the provision of a given public service. As such, the remainder of this study will provide viable alternatives to local government's flight from service provision and outline sound practices that can be followed to ensure a smooth transition towards privatization if it is to be used.
CHAPTER THREE

COMMONLY EMPLOYED TYPES AND TECHNIQUES OF PRIVATIZATION

There are a number of diverse methods utilized by governing bodies at all levels of government to privatize public services. As previously discussed, however, using the term privatization means something different to almost everyone, which can cause a great deal of confusion. In fact, given the array of alternative service delivery methods the term is applied to by scholars, it is no wonder the perception of privatization prevalent in the population at large is often based more upon innuendo and incomplete information than factual evidence. Taking this into consideration, the scope of this study will be limited to methods of alternative service delivery where the government maintains a strong presence, in terms of funding the service and regulating its quality.

Traditionally, the government has been responsible for several aspects of the provision of public services, including deciding what services will be provided, encumbering funds to provide the service, establishing the infrastructure necessary to deliver the service, and hiring the personnel essential to providing the service. This responsibility is certainly one of the most critical functions performed by America’s local governments. After all, “it is up to the Council, with input from the community and staff, to determine the scope and level of services that are to be made available in the community” (Manchester 1989, 14).
It is important to remember that while a local government may wish to provide a given service it is not necessarily required to deliver the service itself. There are many options available to local governments seeking to integrate the greater financial resources, efficiency, and cost effectiveness of private firms into the realm of public service. Generally, a government choosing to provide a service through an alternative delivery method reduces its overall responsibility to the identification of what services will be provided, arranging of funding for those services, and the oversight of the quality of services provided. In such instances, “the local government is not getting out of the business of providing the service” (Manchester 1989, 14), but is leveraging its resources to give constituents the best service for their tax dollars.

For better or worse, the general perception seems to be that privatization means that the private sector assumes complete responsibility for all aspects of a service’s provision. At the Federal level, implementation of privatization efforts coincides with this perception because “policy makers’ vision of what the Federal government should be delivering does not include” (Manchester 1989, 14) the services chosen for divestiture. Basically, the implication is that if private firms provide a service then government should not be in competition with them.

Perhaps the “most common form of privatization in the United States is competitive contracting for services” (Savas 1998, 92), also called outsourcing. In utilizing this method, the government obtains the services of a private (profit or non-profit) firm to provide part or all of a given public service. The government is thus able to regulate the quality of the service by funding the contractor directly. It is noteworthy
that this also includes agreements whereby facilities are built and managed by private companies.

It is natural to wonder how transferring the deliverance aspect of a service helps local governments manage. Curtailing spiraling service costs is the reason most commonly put forth to explain governments entering into contracts with private firms to provide public services. This is due to a variety of factors, most notably rising public sector salaries, pensions and fringe benefits, and increasing public sector unionization.

In contracting, the government is hoping to open up the service to the capital and technology possessed by private firms, as well as these firms lower operating costs. A nationwide survey conducted in 1987 demonstrated the effectiveness of contracting out. As the study shows, “three-quarters of U.S. local governments that contract for services reported realizing cost savings. Of those governments, 11 percent reported savings of 40 percent or more, 40 percent reported savings of 20 percent or more and 80 percent reported savings of at least 10 percent” (David 1988 as quoted in Savas 1998, 93).

Commonly contracted out services include towing services, roadway construction, health care, wastewater management and correctional facility operation, but there any number of other public services contracted out by cities throughout the United States. In fact, “the limitations lie only in the number of available providers and the ability of communities to satisfactorily define the service, so that it can be quantifiably measured and adequately delivered” (Manchester 1989, 15).

In a situation where there is little competition between vendors in the provision of a particular service, localities are unlikely to realize the cost savings that are the primary reason for using contracts. Indeed, it may be a risky proposition to eliminate public
employees with those of a private firm without competitors. Obviously, the goal of a contracting agreement is not to replace “inefficient” public employees with an inefficient private firm.

Another critical element of the contracting process is the potential loss of policy control by the contracting government. The City of Rochester, New York experienced some of these difficulties in contracting out the management of the City’s sports arena.

The operator of the City’s [now defunct] stadium arranged for a rugby game between a local team and visitors from South Africa. Protest over South Africa’s racial policies at the time was directed at City Hall, but the City’s contract gave it no control over who played at the facility. Also, a popular regional high school basketball tournament was threatened with eviction from the facility. The annual event could not pay the rates being charged by the new operator, and the City’s lease carried no provision for subsidizing events (Doherty 1989, 31).

These examples show the great care that must be taken in developing the language of the contract to ensure that private firms remain accountable and responsible to the government that enlists their services.

In general, public administrators seem to be satisfied with competitive contracting as a means of alternative service delivery. A survey of cities with populations of over fifty thousand that engaged in competitive contracting was conducted in 1987. This study revealed that “only 3.7 percent of responding officials where somewhat or very dissatisfied; the rest were very (52.7%), somewhat (22.6%), or fairly satisfied” (Roehm, Castellano, and Karnes as quoted in Savas 1998, 93). Oddly, it was a non-characteristic failure of this popular method of alternative service delivery that inspired the case study chosen by the author to demonstrate how to effectively contract a public service.

A second commonly utilized alternative service delivery technique is franchising. Local governments can grant “exclusive or non-exclusive rights to private companies to
deliver particular services within a defined geographic area” (rppi.org). Frequently cited examples of franchise agreements are cable television, utility services, and towing services. In the case of franchising, it is funded by the consumer of the service rather than by the government through tax revenues. The removal of the government agency from the funding aspect of the service has, in many instances, allowed local governments to reallocate scarce financial resources to other under-funded programs.

The private firms’ responsibility to identify users and assess fees directly caused the use of franchise agreements to rise nationwide, as it further eases the burden on local governments. Recent anti-trust rulings rendered by the courts have made franchising agreements far less attractive to local officials, by requiring that users of the service be clearly defined to be charged for the service. In addition, the level of service must be quantifiable so fees can be accurately assessed. Again, this method presents a danger if there is a lack of competitors, since over the long term users can be subjected to steep increases in price with very little recourse.

Another method that has gained wide acceptance over the last few years is managed competition. In this form of privatization, when public services are opened up to competitive bidding, in-house public agencies are allowed to participate in the bidding process as well. This philosophy correctly assumes that it is illogical to dismiss government agencies’ ability to compete. In some cases, public employees are at least as knowledgeable as employees in the private sector are, and the agencies enjoy a competitive advantage due to the tax breaks they receive.

A sound example of managed competition is the managed competition program used to privatize the refuse collection services of Phoenix, Arizona. In 1978, the service
was broken up into seven districts, which were bid out on five to seven year contracts. This process forced Phoenix's Public Works Department to reassess its operations. In 1984, the Public Works Department "won back a seven year contract for the City's largest refuse collection district...Public Works also kept finding ways to drive costs lower. By 1988, it had won back all five districts" (Gaebler and Osborne 1993, 78). The central theme here is that if governments can offer the same cost savings that outsourcing would, it may be wise to stay in-house.

The very threat of privatization can be a powerful tool local government can use to realize cost savings. Again using Rochester, New York as an example, the City considered privatizing its refuse collection service in the mid-1970s. Concern over service level guarantees, displacement of public employees, and surplus equipment led the City to stop and think before rendering a final decision. Meanwhile, the City employees' union, realizing many jobs were at stake, called for a citywide reduction in crew size from four to three persons per truck. Since cost savings from this proposal exceeded that of private offers, the City agreed. "In this instance, the private contract option provided the needed incentive for efficiency to be injected into the municipally operated program" (Korn and Malone as quoted in Doherty 1989, 33).

There are a myriad of other alternative service delivery methods local government can use to bring service to the masses, but many are beyond the scope of this discussion. Briefly, some of the other options are the creation of legislation to require the provision of a service, public-private partnership, and the sale or long-term lease of publicly held assets to generate additional revenue. There are also some more extreme forms of privatization, like service shedding, where "government stops providing a service and lets
the private sector assume the entire function” (privatization.org) and private sector building and operation of public infrastructure such as roads and airports. The operating firm can recover the costs incurred through user fees.

It is clear that there are a number of ways that government can reduce the costs associated with providing a public service. It is important to choose wisely, however, as these methods are not always suitable for a given situation. As demonstrated in this discussion, contracting out, either through outsourcing or managed competition is a way for local government to provide the services needed or demanded by constituents without incurring the costs of providing the service directly.

Moreover, if the contract is constructed properly, the local government can ensure that citizens receive a high level of service for a minimum of tax dollars. In the author's opinion, the integration of competition into public service was long overdue. By being insulated from a competitive environment, public agencies have operated without taking measures to reduce the costs of the services they have provided for too long. In fact, even today most public bureaucracies do not have acceptable knowledge of the true costs of the services they provide. Simply because a service is public does not mean that competition should not be a key ingredient in its provision. Hopefully, local governments will continue to stretch the tax dollars of their constituents by fostering competition in the provision of all public services.
CHAPTER FOUR

PRIVATIZATION WORKS: THE ARGUMENTS

There are several reasons that the proponents of privatization seek to increase its use as a means of providing public services. While the centralized public bureaucracies functioned well up through the late 1960s, eventually society’s needs changed, and most bureaucracies proved to lack the flexibility to adapt. In addition, the public sector is not very swift when it comes to abandoning services that are no longer needed. Further, the cost of providing public services directly is prohibitive for most local governments in the era of property tax rate caps and balanced budget amendments.

Within the vast amount of literature on the topic of privatization, there are some very good arguments propounded by scholars of public administration, taxpayers, and logicians. The first argument to be analyzed stems from the fact that most government service providers operate as monopolies, tending towards inefficiency and unresponsiveness. Consider the argument that:

public bureaucracies use their monopoly of information vis-à-vis the legislature to maximize their bureaus’ budgets...Consequently, bureaus tend to produce too much output, exceeding the point at which benefits equal costs, thus leading to larger budgets, the inefficient use of public funds, and bigger government (DeHoog 1984, 5).

Ruth DeHoog’s argument appears to be a two-pronged attack on the way most government service providers operate. The first point DeHoog makes is that public agencies, in general, make no attempt to utilize public funds in an efficient and careful
manner. It is proposed, rather, that bureaucracies do everything necessary to increase the costs of providing a particular service each year, whether or not it is contrary to the public good. The second point made in the above argument is that public bureaucracies have no incentive to be responsive and accountable to the citizens that they are supposed to serve.

Another argument along the same lines is found in an intensive study in *American Public Administration* by Carl Lutrin and Alan K. Settle, outlining the following four core beliefs championed by proponents of privatization:

1. Government is involved in more aspects of life than it should be, thereby intruding into private enterprise and individuals' personal lives.
2. Government is out of touch with public needs, and is unable to provide services effectively or efficiently.
3. The bureaucracy is not adequately responsive to the needs of the public, and cannot adapt quickly to changes in the environment in which it operates.
4. Government agencies consume too many resources, threatening economic growth.

The common theme in these four elements of the argument for privatization made by Lutrin and Settle is, again, the perception that government agencies are wasteful. This perception began to cause a real stir in the early 1990s, when local governments struggled to fund their operations in the wake of a global economic recession. As localities began to experience difficulties in providing many services, the private sector was depended upon to provide more public services than ever before.
It is important not to perceive all government agencies as ineffective without looking into their individual situations, though. Different variables will surface when analyzing the feasibility of privatizing a particular service, when compared with other public services. Factors including the "levels of government involved, the type of product or service requested, and the character of the user group all influence" (Munoz 1998, 4) the outcome of a particular privatization effort.

The discussion thus far has focused on the negative perceptions associated with government agencies that have developed over the past few decades. It is logical, however, to question why the private sector firms would fare any better in providing public services than bureaucracies. After all, in theory these entities operate in totally different arenas, with the private sector firm focusing on the bottom line and the public agency focusing on the needs of its constituency or its funding source.

The most basic philosophy behind utilizing a private service provider to provide a public service is that private firms are perceived to have an ability to produce goods or services with more efficiency and higher levels of quality than a public agency. In addition, the business sector can typically provide services based upon economies of scale, whereas, in many instances, government must provide services based solely upon population. Theoretically the public would realize the benefits of enhanced service levels, improved access to capital and technology, and maximization of scarce tax revenues by utilizing private firms to provide public services.

Injecting competition into public services by contracting with private firms can also work to the advantage of the taxpaying public. Pundits of privatization argue that the mechanisms of the free market will provide motivation to provide any service, public
or private, in the form of profit. In a service with many competitors, firms would be required to seek ways to reduce costs and maintain service levels continually in order to win contracts. In expanding the argument, it follows that the government would free itself from the burden of providing the service directly, merely funding and regulating the most efficient private firm available.

This logic is taken a step further by the renowned author E.S. Savas, who points out that “greater efficiency in the private sector arises from greater productivity, lower skill requirements, lower payrolls, and less fringe benefit costs” (Raphaelson 1998, 6). Again we see that serious and learned proponents of using private firms to provide public services hone in on the cost savings private firms are able to generate for governments. Basically, all of the preceding statements are spins on a central theme, namely that privatization offers significant economic advantages for local governments.

Another challenge levied by the advocates of privatization is that government agencies are able to control policy more effectively when they do not directly provide public services. The question of what role citizens expect government to play arises once again when this point is argued. Logically, “steering organizations set policy, deliver funds to operational bodies (public and private), and evaluate performance – but they seldom play an operational role themselves” (Osborne and Gaebler 1993, 40). Those making the case for privatization argue that taking the reigns, and not merely throwing money at societal problems is the proper role for government.

Those arguing for privatization based upon philosophical principles generally take up the first point in Lutrin and Settle’s summation, namely that government has too much influence on people’s lives. It is implied that one way to reduce this negative intrusion is
to reduce the amount of revenue flowing into the government’s coffers. Greater reliance on private firms not only augments government’s inadequate finances, crude technologies, and outdated techniques, but it also gives citizens a greater degree of freedom from regulation. An added social benefit is that private firms, particularly non-profits, are “able to hire employees who are more representative of the minority populations being served and more sympathetic to minority concerns” (Bernstein and Raphaelson 1998).

As the specific focus of this study involves service contracts, it is only fitting to analyze the theoretical benefits of contracting out public services. Contracting out services yields the following benefits for public agencies, according to Dudek (1988):

1. Contracting out unencumbers funds, so they can be utilized to fund other operations.
2. Contracting establishes economies of scale for private vendors, so they may effectively serve multiple localities.
3. Contracting increases the incorporation of new technologies and infuses capital improvement funds into the public sector.
4. Contracting provides greater flexibility in the personnel decisions of service providers due to their ability to bypass civil service rules in the hiring and disciplining of employees.

Again, however, the main reason for privatizing public services is almost uniformly the cost savings that frequently result. The labor costs for municipalities frequently range between 65 and 80 percent of their budget, and it is these high labor costs that are significantly reduced through contracting (Rehfuss 1989). It is the ability
of private firms to reduce labor costs that allows the private sector to undercut the costs of public service providers in a great many instances.

Private sector employees are paid less because they are often younger, have fewer fringe benefits, have less vacation time, and are absent from work less frequently. Private sector employees also work more hours, translating into higher productivity for the private firm. The government also utilizes much less part time labor than the private sector, which utilizes part timers to drastically reduce costs for medical benefits. According to Rehfuss (1989) "skilled laborers performing a wider range of functions does not necessarily translate into higher service levels." In this statement, Rehfuss implies that the "professional" civil service employees may be hindering the public interest by consuming too many resources without generating sufficient output.

When looking at public services from a holistic perspective, it is certain that over the course of the past few decades many public agencies operating in industries with private providers were not effectively serving constituents. In today’s information rich society, Americans expect more from local governments than their parents and grandparents did. Modern public service providers must be able to "see where actions and changes in structures can lead to significant, enduring improvements" (Senge 1990, 114) within the service they provide.

Proponents of privatization argue that it is the business sector that is most effective at identifying those actions and structural changes that bring about cost reduction and higher productivity. The claim by the old guard of public leaders that crisis can only be met by increases in taxation or decreases in service levels is no longer acceptable. As Osborne and Gaebler point out in their popular book Reinventing
Government, “We do not want less education, fewer roads and less health care. Nor do we want higher taxes. We want better education, more roads, and better health care for the same tax dollar” (Osborne 1993, 46).

Simply put, public agencies are thought to be unable to marshal resources into the organizational stratification necessary to satisfy the demands placed upon them by constituents favoring the efficiencies of the free market approach. The cost savings generated by private firms, coupled with the social benefits that are sometimes derived, are more than enough evidence that many public services should be privatized. In addition, when government removes itself from providing a service directly, it is in a better position to control policy. Those who argue for privatization see it this way: we can have the inefficiency, unresponsiveness, and antiquated technology associated with government provided services, or we can have the innovative approaches, higher service quality, and fiscal prudence of privately provided public services. For them the choice is clear.
CHAPTER FIVE

ARGUMENTS AGAINST PRIVATIZATION

Privatization is similar to other methods of public service delivery, in terms of the opposition it generates. Many of the arguments against limiting local government's ability to provide public services directly are philosophical in nature, and in theory point out several negative consequences of implementing privatization strategies. In addition to logical arguments, those who advocate that government should continue to provide public services use recent failures in the privatization of local government services to strengthen their case.

Basically, detractors of alternative service delivery claim that the societal impact of privatization must be given greater scrutiny than is given to projected cost savings that may never materialize. On the contrary, proponents of privatization argue that "since privatization improves society's economic welfare . . . the limit of social responsibility is to provide for the victims of change" (Martin 2000, 3). This implies that government's role is to secure the economic welfare of its citizenry, and minimize its role as a direct provider of public services.

Clearly, history teaches a different lesson, as the main concern of most municipalities has been the social welfare of the people. Generally, businesses exist to make a profit, while governments exist to steer society towards prosperity on all levels, not just the financial ones. Thus, it can be argued that more attention must be paid to the
levels of service provided and types of services desired by the community than to cost savings projections.

It follows that the pundits of government-provided services believe economic systems should be "structured such that each individual within a society can derive some benefit from them" (Martin 2000, 4). An over-reliance on free market forces in the provision of public services is an oxymoron, since the free market, through its very nature, creates large groups of unemployed and impoverished individuals. Social objectives should be integral components in the design and implementation of privatization efforts if they are to work towards the interests of the entire public. After all, is it not the business of public agencies to carry out their missions in a way that promotes the public good?

Another element deserving consideration is the profit motive that drives most private firms. The profit motive does not easily lend itself to some public services, particularly in the area of social welfare. In the case of housing and feeding the homeless, for example, profit-seeking firms will have less incentive to operate than if they were contracted to provide refuse collection, since there is little money to be made in housing the homeless. Human services generally consume far more resources than they generate, limiting the profitability of service providers in these industries. An obvious concern would be that the for-profit firm might try to decrease service levels, or minimize its efforts to identify those most in need, to reap greater financial rewards.

Many scholars point out that while the private sector is more effective in some aspects of service provision, the reverse is also true. As Osborne and Gaebler write in Reinventing Government, private industry is quite ineffective in industries requiring
strong public policy management and policy regulation (Osborne and Gaebler 1993, 348). In addition, the private sector generally performs rather poorly in the areas of discrimination prevention, ensuring continuity and stability of services, and promoting social cohesion.

Unlike public agencies, private companies can go out of business rather abruptly when they face financial difficulty. Imagine the turmoil that would ensue if a refuse collection company abruptly went out of business and the government had to go through the process of finding a new contractor because it no longer possessed the ability to perform the function directly. Moreover, societal goals such as commingling of students of different ethnic and socioeconomic backgrounds are not as important to private firms trying to earn a profit as they are to local governments. Government leaders realize the benefits of exposing youngsters to people of other cultures, and are willing to do so regardless of the effect on profits. It is doubtful that a private, for-profit firm would be willing to make the same sacrifice.

In following the logic of those opposed to privatization, it becomes clear that there is an uneasiness about trusting for-profit firms to replicate the levels of quality and compassion that government provided public services are characterized by. In an interview with David Wilson, General Automotive Supervisor with the City of Los Angeles during April 2001, it was opined that contracting processes used by localities are a risky proposition at best. Mr. Wilson’s professional observation is that contractors often place unreasonably low bids to secure a contract, in hopes they can recoup early losses later in the contract period.
In some cases, unscrupulous contractors are shrewd enough to eliminate the locality’s ability to reenter the provision of a service in the event of problems by negotiating the purchase of equipment and real property. These firms are well aware that once a locality divests itself of the means to provide a service directly, it is at their mercy. During the interview with Mr. Wilson, he expressed that many of the contractors doing business with the City of Los Angeles endeavor to raise prices once the City no longer has the means to provide a particular good or service. The early elements of this chapter’s discussion apply in this scenario, as price increases obviously cut into the projected cost savings localities hope will manifest themselves through privatization agreements.

In all likelihood, however, contracting will almost always be more expensive than the public agency seeking to privatize a service is led to believe. This is especially true in industries with few providers, where “political patronage and influence can be difficult to exclude” (Bernstein and Raphaelson, 1998) from the bidding process. To this end, private markets must truly function more efficiently than the “non-market” alternative of service provision by government for privatization to be of any real benefit to a locality.

Another piece of the argument against privatizing for the sake of cost savings alone is that “government may be redefining the traditional relationship between provision and production [and] may be avoiding or ignoring questions of service levels and quality” (Dahl and Glassman 1991, 488). Although government services can be more costly in some cases, public agencies often bring more to the table than meets the eye, by making a concerted effort to ensure high service levels and allow access to anyone who wants them in most instances. More importantly, government agencies do
not tend to ignore the more difficult and costly cases, and they strive to eliminate discrimination from the provision of public services.

Private firms that contract their services out to governments, on the other hand, have every reason to avoid difficult cases, especially if they earn fees based upon the number of customers served. Why spend a lot of time on one difficult case, when five easier ones can be more quickly resolved for the same total fee? Another way private firms cut costs is by not making the effort to provide access to underrepresented segments of the population. While this benefits the shareholders of the private service provider, it increases the chances that discrimination or denial of access to service will occur.

There are other frequently ignored aspects of the privatization process that opponents point to in criticizing the wishful thinking associated with many cost savings projections. For example, taxpayers will have to compensate the workers that lose jobs due to the implementation of an alternative service delivery plan. Government agencies also omit the costs of contract preparation, administration, contractor oversight, and renegotiating. Consensus estimates place these costs at between 20 to 30 percent of the cost of providing the service itself. These costs, often not considered during the developmental stages of the privatization effort, take yet another bite out of the ever shrinking cost savings a local governing body would expect when going forward with the decision to privatize a service.

In putting this portion of the argument against privatization to rest, one simple statement that adequately sums up the argument deserves attention. "It should not take an MBA to understand the basic economic principle: To make money on anything, you have to charge more [for a service] than it costs" (Campbell 1996, 2). As the detractors
of privatization contend, perhaps a more realistic picture of the cost savings government will see versus the service levels expected from private firms should be painted before going ahead with the privatization of a service.

NON-FINANCE RELATED ARGUMENTS AGAINST PRIVATIZATION

It can be conceded that the private firm is a much different type of animal from the public bureau. To be certain, private firms take greater risks and have the capital to integrate new technologies into their operations, but some believe they lag behind government in several areas critical to effective public service provision. Specifically, the private sector reputedly displays less compassion and commitment than public agencies, treats problems in a non-holistic manner, and operates more within the confines of its central mission than public agencies do (Osborne and Gaebler 1993). Perhaps more importantly, the private sector firm actually “inspires less confidence in its operations than the public agency does” (Osborne and Gaebler 1993, 347).

Opponents of privatization voice concern over the potential for government to lose the power to effectively pursue its constituents’ interests. While the records of government agencies are open to the public, the records of a private firm are far more difficult to access. More disturbingly, questions arise about what influence the citizens have on private firms that are contracted to provide public services. The public can voice its displeasure with elected officials by not returning them to office, but how can it voice its displeasure with an unresponsive private service provider two years into a five-year contract?
Another element of this argument is the possibility that fiscal accountability will be diminished, and that government loses the ability to allocate public funds when privatizing services. Recall the earlier argument that private firms may avoid the more difficult cases posed by citizens to increase profit margins. In such instances, public funds are not being used to serve the community as the taxpayers and government officials intended.

Perhaps the most disturbing unintended consequence of privatizing public services is the "high potential for fraud, financial conflicts-of-interest and cost-overruns" (Nightingale and Pindus 1997, 3) that result from poorly designed privatization strategies. Citizens are not very forgiving when inept public administrators implement poorly conceived privatization schemes that actually end up costing the taxpayers more than when the government provided the service directly. Enemies of privatization also point out that when government agencies provide a service, the public does not have to fret about potential corruption in the contracting process.

Summing up the arguments against privatization, it is evident there is great concern about the social effects of privatization, and about the potential for dishonesty on the part of private firms throughout all phases of the process. If government funds a service, it bears the responsibility for oversight to ensure that citizens receive adequate service and that private providers remain responsive. It is also essential to thoroughly analyze the potential privatization of a public service from a more holistic perspective to avoid over-emphasizing cost savings that might not be achieved. Finally, it is critical to remember that "services can be contracted out or turned over to the private sector, but governance cannot" (Osborne and Gaebler 1993, 45).
CHAPTER SIX

CONSTRUCTING AN EFFECTIVE PRIVATIZATION PLAN

The preceding chapters have laid the foundation for what is to be an in depth look at the general principles that municipal governments can follow to effectively privatize a service. Now that the theories and arguments relative to the topic of privatization have been considered, it is appropriate to examine the specific mechanisms localities can employ to remove themselves from the direct provision of a service. Through the case study method, it is the author’s sincere hope that the elements most likely to yield a successful privatization plan will reveal themselves.

In light of the worldwide success of privatization programs in a myriad of industries, there is reason to suspect that privatization fails most often due to the employment of a poor model than anything else. This theory is postulated, if not substantiated, in the vast majority of the literature reviewed by the author. Perhaps it is the desperation facing cash-strapped municipalities that causes them to implement privatization models incongruous with their communities’ unique needs. It could also be that in some instances, shrewd contractors manipulate government agencies into spending more than if the service had been kept in house. If public administrators are willing to analyze the elements of failed privatization efforts, and endeavor to learn from these mistakes, the logical assumption is that municipal officers will realize greater success in modeling privatization strategies with greater potential benefit for their community.
At this point, the reason this topic was chosen by the author bears mention. As an employee of the City of Los Angeles General Services Department, the author was extremely disappointed to learn of a fairly recent attempt to contract out one of the Department’s services that failed miserably. Specifically, General Services’ Fleet Services Division offers vehicle-towing services to the other City Departments. A portion of this service, towing for immobilized heavy-duty trucks and construction equipment was thought to be a prime candidate for outsourcing. After some discussion, the Department elected to proceed with this effort during the spring of 1995.

After interviewing several Fleet Services employees present during this process, however, it is apparent that the feasibility of contracting this service was never examined in detail. In addition, Fleet Services had never conducted a full-cost accounting of this heavy-duty vehicle towing operation to determine its true cost to the City. As such, an accurate prediction as to the potential cost savings that might result from contracting out this service could not be made. Based upon these interviews with Fleet Services employees, it appears the final decision to move forward was made by one of the Department’s Assistant General Managers, since retired, who was unfamiliar with many aspects of the privatization process. More importantly, this person’s decision was not based upon any quantifiable data.

Before delving into the financial aspects of this failure, however, the question of whether this service should have been privatized needs to be addressed. The first step in any well-developed privatization plan is a careful determination of what services should be privatized. It makes little sense to privatize a service that is not susceptible to the
effects of privatization, but is sometimes done by bureaucrats who want to display how much money they have saved the taxpayers.

**DECISIONS, DECISIONS: WHAT SERVICES DO WE PRIVATIZE?**

In developing a successful privatization strategy, the political environment a particular service operates in deserves serious attention. Obviously, there will be many persons interested in maintaining government’s role in providing the service. Also, making a concerted effort to pursue projects that are not overly complex, have a short turnaround time, are not controversial, and are prone to reliable outcomes is critical. This is because “opponents will turn a privatization project’s degree of complexity to their procedural advantage, and will generalize from any early shortfalls during competition projects . . . to attempt to discredit the entire managerial concept” (Olsen 2000, 3). A simple privatization plan implemented in an area of low visibility to the public will give the opposition far less ammunition with which to halt the introduction of competition into the provision of a particular public service.

The second item to consider in determining which service to privatize is the amount of cost savings that will result from the introduction of a privatization initiative, and “the degree to which these savings, if achieved, can be applied to other governmental priorities” (Olsen 2000, 3). An important element of making this decision is considering how many competitors there are within a particular industry. It is more desirable to privatize a service where multiple service providers exist, to encourage competition and enable the government to contract with another provider in the event of problems.
While the operation considered for privatization is clearly low on the radarscope of public visibility, very little consideration was given to the other elements mentioned here by the Department of General Services. This is especially true in the areas of ensuring continued vendor competition and measuring vendors’ capabilities to perform as promised. Moreover, according to the Fleet Services employees interviewed, the extent to which any cost savings generated would be applied to other Department priorities is unclear. Lastly, the participants in this privatization process uniformly declared that given the low level of the team’s experience with outsourcing, the level of internal opposition to the project was also given very little consideration.

Although in the case of such an obscure service, there would likely be nominal opposition to outsourcing, it is the fact that it was given no consideration by management that is troubling. It is important to consider as many potential scenarios as possible when seeking to provide the public with the best possible service for their tax dollars. By establishing a pattern of avoiding relevant issues, and moving forward to privatize their heavy towing operation without substantive evidence, Fleet Services management neglected to fulfill their responsibility to utilize resources efficiently.

BUILDING A CONSENSUS

Privatization projects are more easily implemented when there is a broad support base for injecting competition into a particular service. It follows that privatization “can be best sustained when there is a committed political leader to champion it” (Bumgardener 2001). A degree of support from an energetic leader is necessary to build
support for the change both within and outside government. As mentioned in the preceding chapters, the term privatization means different things to different people, and sometimes the term has a negative connotation. Thus, it is vital to ward off negative interpretations of the privatization plan before they can be fully developed.

Indeed, the very suggestion of privatization generates tremendous amounts of opposition from government employees. The general perception is that privatization necessarily means that widespread layoffs of public employees will result. Political leaders play an important role in staving off competition by helping to build support for privatization movements. Usually, this is accomplished through promotion of a greater understanding of privatization's meaning in a particular context, and why it will benefit the taxpayers of a particular community.

As Chicago Mayor Richard Daley very rightly points out in Policy Study 186 by the Reason Public Policy Institute, public agencies can compete as well, and workers will not necessarily be displaced. Within this study, Mayor Daley states “In 1995, we deprivatized . . . maintenance of street sweepers and garbage trucks. Today we can do it cheaper in house” (Eggers 1995, 9). With respect to the General Services Department, however, both David Wilson and Kevin Lee stated that they could not recall any discussion of allowing the Fleet Services Division to submit a bid to continue performing the service.

The fear by public employees of widespread layoffs resulting from a privatization campaign appears to be without foundation, when given closer scrutiny. For example, a General Accounting Office Study of downsizing within the Department of Defense completed in 1985 illustrates that "of 9,650 employees affected by privatization, 94
percent were placed in other government jobs or retired voluntarily. Half of the remaining six percent were employed with the private contractor. Only three percent were laid off" (Johnson, 2001).

In 1989, the National Commission on Employment Policy (NCEP), a Division of the Department of Labor, examined the impact of privatization on employees from jurisdictions across the United States over a five-year period. The report regarded as the most comprehensive examination of privatization's impact on government employees, found that of the more than 2,000 workers in 34 privatized city and county services, only seven percent were laid off. More than 50 percent of the affected workers were hired by private contractors, approximately one-fourth (24 percent) of the employees transferred to other government positions, and a little over seven percent retired. In conclusion, the study found that "in the majority of cases, cities and counties have done a commendable job of protecting the jobs of public employees. (Johnson, 2001).

Contrary to prevailing popular opinion, most public agencies employ a variety of strategies to reduce privatization's impact on public servants. To begin with, most long-term contracts with a private firm to provide public services require the contractor to retain all of the displaced public employees at "comparable levels of wages and benefits" (Johnson, 2001). In addition, most reductions in force are accomplished through attrition, and not mass layoffs. Public agencies and private contractors are well aware of the vehement opposition privatization can generate, and have gone to great lengths to minimize its effect on vocal and well organized public administrators.

While privatization efforts are more sensitive to the public workforce, wholesale privatization may not be an effective answer to the afflictions plaguing modern municipalities. The example given by Mayor Daley in Policy Study number 186 is but one instance in which a government agency was able to perform a service at less cost than its private sector counterparts. Lest we forget, businesses fail as well as succeed,
and private industry is not the answer to every problem. By neglecting to provide itself with this additional option, the Department of General Services effectively stifled the competition necessary for public agencies to translate projected cost savings into funds in a municipality’s coffers. It is important to remember that privatization is no substitute for intelligent management. If a government agency can provide quality service to the public more cost effectively than a private firm can, the government should provide the service directly.

MEASURING THE COST OF A GOVERNMENT SERVICE

It is rather surprising that the Department management elected to pursue the privatization of this service, since there was no determination made of exactly how much it cost to provide it. Since the primary reason to privatize is to cut costs, it is irrational to bid out a service when the municipality may be providing the service at a cost equivalent to that of other entities in the industry. It is also critical to understand how “the degree to which savings, if achieved, can be applied to other governmental priorities” (Olsen 2000, 4).

Until the past few decades, most government agencies had no idea how much even the most basic service cost to provide. The rule of thumb was to request a budget increase each year, regardless of the actual service level being received by the agency’s customers. Without this crucial accounting information, it is impossible to gauge the real benefit, or lack thereof, of contracting out a service. True measures of a service’s cost can be hard to come by, however, as costs may be shared between Departments. If so, it
is vital that an estimate is made based upon the percentage of the total cost of the
government unit seeking to remove itself from the provision of a particular service. A
national study of

120 cities found that half the respondents had no formal cost accounting method. Common mistakes included failure to allocate overhead, improperly depreciating
capital assets, ignoring capital costs, and excluding or underestimating the costs
of pension plans, legal fees, insurance costs, and administrative expenses (privatization.org).

Since most of the individuals directly responsible for implementing the brief
privatization of the City of Los Angeles’ heavy equipment towing service are now
unavailable for interview, the motive for not conducting any sort of full cost accounting
is unclear. There are, however, several instances where Los Angeles’ City Departments
have done it right, making the lack of accounting in this case even more puzzling.

In one example, a study by a private firm indicated that the fully allocated cost for
residential refuse pickup in Los Angeles was approximately $21 per unit in 1998 (Eggers
1994, 31). This rate is well above the study’s stated average of $9 to $16 for nearby
municipalities engaging in competitive contracting. It is important to note that the
service levels reported in this study were near to parity with those offered by Los
Angeles’ Bureau of Sanitation. Although for other reasons, the City has not yet
privatized this service, knowledge of its true cost has allowed Sanitation to benchmark its
operation with that of private firms. The result is improved internal procedures and a
reduced financial burden on the taxpayers.

Los Angeles is also among the highest-cost cities in the United States when it
comes to providing Emergency Medical Services (EMS). In a study by the Reason
Public Policy Institute, it was found that “total cost per patient transported is $476 in Los
Angeles, compared with an average of $160 per transport in other cities with high performance systems.” In addition, despite users being billed for EMS services, the amount collected by Los Angeles often falls below 50%, in contrast to the 60-80% retrieved by other municipalities (Eggers 1994, 44).

Finally, the Los Angeles Workers Compensation Administration was found to have similar deficiencies through an independent audit by the Reason Public Policy Institute. The rate at which claims were filed in the City of Los Angeles was discovered to be 27 per 100 employees, or almost double the national average of 15. The City also pays out $2,169 in claims per employee, in comparison to the national average of $830 per employee claim. In addition, caseworkers in the Los Angeles Workers Compensation Administration handle a staggering 1,700 cases, which is above and beyond the industry standard of 250 (Eggers 1994, 61).

SIZING UP THE COMPETITION

Another important element in deciding whether to privatize a service is the number of competitors existing within a particular industry. If few providers of a given service exist, the resultant lack of competition leads to artificially high prices within the industry. In this situation, governments may be wise to avoid contracting out a service, lest they be victimized by the unscrupulous practices of vendors enjoying near monopoly status. The structure of the bidding process used to contract out the service can also play a role in this regard, by eliminating potential service providers, stifling competition, and removing the winning bidder’s incentive to keep costs low.
In the case of Fleet Services heavy-duty towing operation, the General Services Department decided to structure a five-year deal such that only one vendor would provide heavy-duty vehicle towing for the entire City. Unfortunately, in 1995 there were only three vendors within the entire 465 square miles covered by the City claiming to possess the capability to provide this service, each of which was based out of a single shop. Despite the limited number of potential service providers, the Department still forged ahead with the intention of privatizing this service. While it is impossible to pinpoint the final rationale, Fleet Services employees interviewed for this project suspect the decision to press on was based on the notion that contract’s sheer value would encourage competition among the low number of bidders.

Predictably, the results of this approach were far from spectacular. After the low bidder was awarded the contract, things went according to plan for a short time. After a few months of decent service, however, the vendor began to turn the contract’s five-year length to his advantage, forcing several dubious “unanticipated cost increases” upon the City of Los Angeles. While the length of the contract will be discussed in more detail later, suffice it to say that Fleet Services was locked into a poorly structured deal with no way out. The contractor, who did not need to fear losing the contract in the short term, also allowed service levels to decline, despite prices rising above those supposedly agreed to in the contract.

Perhaps contracting out this service would have yielded a better result if the City had been broken up into districts, with vendors serving a particular district instead of the City of Los Angeles as a whole. This approach worked very well for the City of Manhattan Beach, California, which bid its refuse collection service out in divisions. In
doing so, Manhattan Beach was “able to choose from two of the largest haulers nationwide, two medium-sized haulers, and one small local hauler to provide the service” (Eggers 1994, 27). Further, it can be argued that the term of the Los Angeles contract was too long to instill a need in the contractor to keep service levels high.

Another example can be derived from the experiences of the City of Phoenix, Arizona in contracting out its refuse collection service. Phoenix dissected the City’s refuse collection routes into five zones, and conducted full cost accounting to discover exactly how much it was costing the City to provide the service. Initially, only one zone went out to bid, but “as a result of cost savings and comparable service levels, all five were eventually up for contract” (Eggers 1994, 31). An incremental approach such as this would have served Fleet Services well, by affording the opportunity to gauge the program’s success before the entire heavy-vehicle towing operation was contracted out.

The point here is that Phoenix’s in-house provider was eventually able to restructure, reduce costs, and win back all five districts. Notice that Phoenix also made sure to retain its means of production, keeping itself prepared in the event the contractor could not perform the service at the specified level. If contracting out with a private firm is not the answer, perhaps the governmental unit will feel threatened enough to make itself function nearly as efficiently as most private firms within a particular industry.

Of equal importance is verifying that a vendor has the capability to offer the service levels being proposed. Logically, citizens expect at least the level of service to which they have become accustomed. Therefore, it is crucial to ensure that vendors bidding to provide a particular service can perform at least as well as the public agency currently performing the function. Throughout the nation, city departments engaging in
competitive contracting frequently institute Request for Proposals (RFP) at this stage of the process. Simply stated, an RFP substantiates, in writing, the vendor's claim that it can perform a service at a given level, and the method of operation to be employed. An RFP can be very important to a municipality in the event that problems with the vendor arise. In Manhattan Beach, California, for example, "the City opted to ask contractors to describe their process of waste disposal in 1993, resulting in a proposal that absolved the City of most of the liability for Superfund cleanup should an accident occur" (Scarlett 2000, 3).

Again, in attempting to privatize the heavy vehicle portion of the City's towing service, the Department of General Services left itself open to criticism by not requiring vendors to respond to Requests for Proposals. In the words of David Wilson, General Automotive Supervisor of Fleet Services,

in about 20% of our Department's experience with contractors, they cannot handle the service as they had claimed. It is important, therefore, to ensure the vendor is capable of performing the service before contracting with them. The primary function of higher bidders is usually the function being bid on, whereas lower bidders often subsidize this service with other elements of their operation. Essentially, what this means is that a more diverse vendor may be able to afford to break even on a service, and not need to cut service levels to make a profit. It is important to scrutinize their operation a bit, however, and assess their capabilities to ensure the City is not setting itself up for a fall.

Mr. Wilson went on to provide an analogy of a recent failed privatization effort initiated by Los Angeles County. In this instance, the County of Los Angeles privatized vehicle maintenance of all vehicles not belonging to the Fire Department, but did not utilize RFPs to review proposed service techniques in detail. Unfortunately, the organization that won the contract could not meet the demands placed upon it by the County. In developing the contract, the County government relied on the bidders'
promise that they could deliver the required service levels, failing to take the steps necessary to substantiate these claims. They failed to realize, however, the extent to which vendors would cut corners to increase profits. Only much later did they realize their mistake, but the cost savings they were hoping for had never materialized.

In light of the focus on finances, as opposed to service levels, it seems that some public agencies have lost sight of the very reason for their existence. To be sure, it is important to run a public agency efficiently, especially as populations and service requests grow faster than tax revenues. The success of many public services, however, is not measured by the agency’s bottom line. Again using public education as an example, a single question exemplifies the dilemma. Specifically, is the goal to educate our children for the least possible cost or educate our children well at a reasonable cost?

Clearly, it is incumbent upon local governments to offer the best service available for the most reasonable cost, not simply provide a service at the lowest available cost, regardless of the decrease in service levels to the public. Following this train of logic, it is reasonable to assume that a local government seeking to privatize a service owes it to constituents to ensure service levels remain comparable, at the very least. Not to belabor the point, but potential cost savings, while a primary factor in the decision to privatize or not, should not be the only consideration.

MONITORING CONTRACTOR PERFORMANCE

Now we turn our attention to the events that must transpire after a service is contracted out in order to ensure the community receives the service level and cost
promised by the contractor. The real problem with utilizing private firms to provide public services lies in determining what the performance measures will be, who will oversee performance, and “whether or not the terms of the contract will induce unacceptable behavior, such as the avoidance of harder cases” (Suggs 1989) by contractors.

Before actually beginning the undertaking of performing a given public service, firms can promise the world, with the hope of securing the contract. To be truly beneficial however, privatization must “create markets that function more effectively than the non-market alternative of government agencies that produce a good or service” (Bendick 1984). A sound privatization scheme, therefore, must incorporate a comprehensive plan to monitor the enforcement of contractual provisions entered into by a municipality and a service provider.

When engaging in the oversight of contractor provided public services, municipalities must be mindful of the incentive for private firms to reduce service quality to bolster their bottom line. Attention must also be paid to the unscrupulous efforts of some contractors to force “unanticipated” costs onto the public agencies that procured their services by taking advantage of loopholes in the contract. Since governments incur the expenses of negotiating, drafting, and monitoring contracts when outsourcing a service, it is essential that any vendor request for cost increases is given utmost scrutiny. As contract-related expenses typically consume 20-30 percent of the cost of a privatized service, municipalities are counting on the terms agreed to by the vendor to generate the cost savings that were the impetus for privatizing in the first place.
An example can be gleaned from the experiences of the City of Garden Grove, California, which attempted to contract out its street sweeping service in 1977.

After being awarded a five-year contract, the contractor requested renegotiation because of substantial increases in the costs of labor and fuel. It was clear to the City’s management that the contractor was going to default. Officials feared price increases, but the contractor had the Garden Grove in a bind. Since the City had divested itself of the means to provide the service itself, it had no alternative but to divide the City into 2 districts and re-bid the service to attract smaller providers (Darr 1987, 27).

Sadly, the Fleet Services executives that negotiated the original terms with the vendor were virtually strangers to contract development and implementation. As such, no reliable method of monitoring the contractor’s performance was put in place. Compounding this error was the decision to sell the City’s heavy vehicle towing equipment to the vendor that won the contract. Essentially, this left the Fleet Services Division of General Services powerless to react when the contractor failed to live up to its agreed upon responsibilities.

During the author’s interview with Mr. Kevin Lee of General Services, he disclosed that after the inception of the agreement, the contractor’s performance was satisfactory for a few months. Response to calls for service was prompt, the Division was saving money, and all was well. No sooner than Fleet Services began to turn its attention to other priorities, however, did the situation take a severe turn for the worse.

The contractor, aware that it had a deal for several years, was one of only three operations capable of serving the entire 460-plus square miles of Los Angeles, and that the City no longer had the means to tow heavy vehicles, began to flex its muscles. Citing unforeseen cost increases, the contractor forced the City to agree upon a restructured fee-for-service agreement, albeit reluctantly. In addition, after several months of quality
service, during which the contractor knew he was losing money trekking into the San Fernando Valley to tow heavy vehicles, service call response times to this region of Los Angeles slowed to a crawl.

Basically, this dire situation was created during the developmental stages of this process, when the contract was negotiated and written up by inexperienced persons. Effectively, this ambiguously written contract allowed the vendor to place the Department of General Services in a very precarious position, by remaining silent as to how to keep the contractor in line. The contract’s length of five years was also highly questionable, as it eliminated the competition necessary for successful privatization. In the end, Fleet Services had to reacquire the means to provide this service, at a significant loss to the City.

An example of how to correctly monitor a service comes from the City of Indianapolis. In 1993, Indianapolis bid out its curbside refuse collection services for approximately 319,000 residences, the scope of which included manual collection of household waste, yard trimmings, and recyclables . . . . The contract term was limited to thirteen months, preventing the City from being locked into an unsatisfactory contract in the initial stages, and permitting maximum flexibility (Chrisinger 1996, 2).

In the instance described above, the length of the contract itself was an effective monitoring tool, as the vendor had to perform as agreed if it hoped to continue to be awarded the contract.

Another stroke of genius on the part of Indianapolis officials was the decision to divide the refuse collection service into twelve districts, and “ensure that at least one would be retained by the Indianapolis Department of Public Works” (Chrisinger 1996, 3). This element of the program, namely maintaining the means of production, enables
municipalities to force contractors to stick to the agreements that they so willfully entered into. Moreover dividing the service into districts allows smaller providers to throw their name into the hat, fostering increased competition, and thus better deals for municipalities. The competition is perpetuated by the fact that “in Indianapolis, providers of refuse collection services may not service more than three districts” (Chrisinger 1996, 3), requiring contractors to continue performing well or lose the contract.

It is true that in and of themselves the above elements are not monitoring tools. Rather, by heeding the valuable advice and examples above, and by structuring a privatization agreement accordingly, monitoring the agreement is exponentially simplified. Another related method of inducing contractors to “monitor themselves,” is structuring a performance based pay system which binds contractors’ fees to clearly established performance goals.

In Victoria, Australia, for example, an innovative and structured performance-based pay system was established for the operators of private prisons. Basically, the private operators receive three revenue streams from the government. The first is the accommodation services fee, which pays for housing the prisoners. Second, is the correction service fee, covering specific services, such as health care, food, and education. The final fee, a performance linked fee, is the most innovative. This fee is tied to a set of performance indicators, including escapes, deaths in custody, assaults on inmates, and so forth. As long as the company meets prescribed standards in these areas, it receives the full fee (Moore 1997, 4).

Contracting is arguably the most difficult alternative service delivery method to effectively implement, due to the level of complexity involved in preparing, implementing, and monitoring contracts. Sadly, many government leaders “act as if their job is done once they have signed a contract” (Clark 1998). Poorly drafted contracts give contractors the maneuvering room they need to not deliver the level of services agreed
upon, effectively committing fraud without much recourse. To guard against this, cities must expend a great deal of resources monitoring and enforcing the provisions of the contract.

Unfortunately, the monumental effort required to monitor the performance of contractors has its basis in history, during which governments have been bilked out of millions of dollars by contractors seeking to better their own situation at the expense of the public interest. Municipalities must take every precaution available to properly manage, review, and assess the performance of contractors and document problems experienced with particular individuals or companies. Too often, it becomes easy to classify a unscrupulous behavior by a firm as a learning experience, and simply relish the fact that the contract has ended. While this ends one public agency’s troubles, it does not guarantee that the firm in question cannot try to pull the wool over another agency’s eyes. The documentation aspect of performance monitoring is vital in identifying the contractors a municipality should refrain from doing business with in the future.

To this point, the discussion has focused on the notion that agreements can be structured such that it is beneficial for contractors to monitor themselves. Let us now shift gears, and treat with the methods municipalities can use to ensure contractors comply with the provisions of an agreement. Perhaps the most talked about way, if not the only viable way, to hold contractors accountable, is to establish a set of clearly understood and quantifiable performance standards.

Performance standards must be clearly stated and agreed upon by both sides to be effective. It is equally important to set forth procedures for accurate measurement and recording of these standards. Also, lest we forget, in today’s litigious society these
standards and procedures should be in written form to give each party to the agreement ample protection in the event of a breach of contract.

An industry where a performance standard is clearly understood, and easily measurable, is the Emergency Medical Services industry. In this industry, municipalities require contractors to ensure that a certain percentage of their response times to service calls are within a given interval. For example, "San Diego has a response time requirement of 10 minutes for 93 percent of all paramedic calls dispatched. Las Vegas requires a time of eight minutes or less for 90 percent of all calls" (Eggers 1994, 45). In both cases, penalties are levied upon the contractors for failing to meet these obligations.

In the instance reviewed by the author, however, it is unclear whether there was any attempt to develop a set of performance measures agreed upon by both the contractor and the Fleet Services Division. In the author’s interviews with Kevin Lee and David Wilson of Fleet Services, both made mention of this deficiency, and pointed to the inexperience of the negotiators and lack of communication throughout the process as causes for the project’s failure. For example, according to Mr. Wilson

The decision to confine the privatization effort to only one aspect of Fleet Services’ towing operation was problematic. Fleet was obviously not a primary customer, so service calls were not responded to promptly, as other customers paid more for service.

Why then, were Fleet Services managers enlisted to handle the negotiations? Mr. Wilson stated that since Fleet Services management possessed unique automotive industry knowledge, they were called upon to negotiate terms of the arrangement. Their "inexperience" came into play during the developmental stages of the contract, when they failed to properly communicate their interests to those putting the agreement into written form.
After the negotiations concluded, the deal was to be put into writing by the City Attorney's Office. Fleet Services management made the mistake of assuming that these "contract experts" would not foul anything up. As it turns out, however, some of the provisions of the deal in the final written agreement were flawed to begin with, and no set of clearly understood performance measures was put into place. These omissions allowed the contractor to take advantage of the City of Los Angeles by endeavoring to pass on dubious cost increases while simultaneously decreasing service levels as the program continued. In all fairness, though, Fleet Services managers had very little experience using contractors to perform services at the time of this incident, and are much more wary and precise in their dealings with vendors at present.

Lastly, it is vital to remember that while utilizing a private firm to provide the public with a particular service may decrease the fiscal load shouldered by the taxpayers, there are substantial costs incurred through the process. When considering the costs of negotiating, preparing, monitoring, and renegotiating contracts, it is not uncommon for these costs to exceed 20 to 30 percent of the cost for the service itself. Although this point has been covered, it is so important, and so frequently overlooked, that it cannot be overstated. These costs make it critical that municipalities strictly enforce the provisions of their agreements with vendors. If this cannot be done, than the cost savings that local governments had been hoping for, or in some cases counting on, to fund other programs might disappear altogether.
CHAPTER SEVEN

ELEMENTS OF A SUCCESSFUL PRIVATIZATION PLAN

Now that proper consideration has been given to the topic of privatization, and the arguments have been analyzed, the time has come to suggest methodologies that local governments can use to correctly implement a privatization plan. While there is conflicting evidence regarding the effectiveness of privatization, it has worked, and worked well, in many different industries throughout the world. There is reason to suspect that in many of the cases where privatization has failed, it is not because privatization of some sort was not right for the situation. In fact, much of the literature reviewed by the author suggested that privatization failed most often due to poor planning and design, as was the case with Fleet Services’ attempt to outsource its heavy vehicle towing service.

More recent students of privatization have the advantage of being able to analyze past efforts to privatize public services. Analysis of prior privatization movements identifies several steps government leaders can take to ensure that privatizing a particular service will benefit the community as intended. Previous efforts also reveal the benefits of conducting privatization planning with some degree of care and forethought. Government leaders must structure contracts with private providers that protect taxpayers against price gouging, ensure contractor accountability, and allow for government
oversight for the privatization plan to work. With no further delay, then, let us examine the necessary steps in greater detail.

SEEING THE BIG PICTURE

The very first step in creating a privatization plan that will succeed is to take a look at the environment a particular organization operates in. Is privatization right for the service in question? Can internal operations be streamlined so the service can continue to be done in house? Will outsourcing the service impact the safety of the community or access to public information? These and other questions are important, and need to be addressed to avoid moving forward with a poorly thought out plan strictly in the name of potential cost savings.

The community served by a municipality has the right to expect the protection of their interests by elected representatives. While financial measurements are important, they are not always the only means of measuring the effectiveness of a service. For example, if a firm states that it can educate a child for $100, when it costs the local school district $1,000, does that mean that the child will receive the same level of education? What will the condition of the facilities be? Will the teachers hold teaching credentials, since many teachers in private institutions do not?

Some other questions municipal officers may wish to ask themselves before engaging in the privatization of a service are:

• How visible is this service to the community, and is the community particularly susceptible to any disruption in this service?
• Do a significant number of competitors exist in this industry to ensure continued competition?
• What level of public employee resistance is expected, and can layoffs be avoided or minimized?
• What is the political climate this service or organization operates in, and how substantial will the efforts from opposing parties with a vested interest in continuing with “business as usual” be?

As one can see, although this stage of the privatization process is purely conceptual, there are many important issues that must be given attention at this early stage for a municipality to reap the benefits of a truly effective privatization plan.

Finally, government leaders worth their salt should analyze the previous privatization undertakings of other entities in the particular industry being studied. A study of this nature would be likely to reveal measures that would best meet the needs of a particular community. When conducting this study, it should be noted that the privatization efforts of other countries might be useful in giving municipal officials ample data from which to reach an informed and well-reasoned conclusion. In short, analyzing a variety of other privatization programs is a sure way to avoid thinking within narrow parameters, by opening up public administrators to the dynamic ideas employed abroad.

TAKING THE LEAP OF FAITH

Once the decision has been made to contract out, or otherwise privatize a service, every effort should be made to ensure that the program is given ample opportunity to succeed. By creating a strong foundation upon which to build a successful privatization
program, municipalities will be far more likely to realize the cost savings promised by contractors. In order to build such a foundation, municipalities must decide which method of privatization is best suited to the service, ensure a sufficient level of competition is present within the industry, and structure a sound bidding process. It is no less important to have experienced, qualified negotiators and contract drafting personnel offer input at each step along the way, develop a set of quantifiable and measurable performance standards, and devise measures to enforce contractors’ adherence to agreements entered into on behalf of the community.

**HOW MUCH DOES IT COST?**

After treating with the probing questions above, municipal leaders should conduct empirical research to determine whether or not to proceed. Basically, some method of arriving at how much it costs for the government to paint a fire hydrant, fill a pothole, or what have you, must be undertaken. Without this knowledge, it is impossible to predict whether or not privatization of a service will be the answer for a municipality seeking to cut costs.

In determining the cost-effectiveness of outsourcing a service, best practices require that contracting decisions be based on a detailed comparison of costs for government service delivery and contracting costs. The best contracting practices of local governments . . . balance the efforts to reduce government costs with efforts to ensure service needs and other policy objectives, such as service quality, control, and service stability, are also met (Wisconsin Legislative Audit Bureau 1996, I).
In the case of Fleet Services’ heavy-duty vehicle towing program, no serious effort to discover the cost of the service was attempted. An in-depth discussion with Ron Patitucci, an Equipment Specialist II with the Department of General Services, sheds further light on the Fleet Services failed endeavor to privatize this function. Mr. Patitucci, relying on his 25 years of automotive industry experience, believes “that privatizing this service without a clear indication of cost savings was foolhardy at best.” According to Mr. Patitucci, the average per hour service charge of a private towing company is $100. This is in comparison to the approximately $40 per hour that was expended by Fleet Services in providing this service. Please note that this $40 figure was arrived at by adding the hourly rate of the mechanics that drove Fleet Services heavy-duty tow trucks and an estimate of the per-hour cost to operate the equipment arrived at by the author and Mr. Patitucci.

Granted, the employees of the Fleet Services Division are mechanically inclined, and do not often have the occasion to conduct exhaustive cost-benefit comparisons, but it is clear the City was providing this internal service at less cost. The bold move to inject competition into Fleet Services’ operations was a noble, but misguided, effort, as privatization for its own sake often causes more harm than good. In this instance, Fleet Services did not realize the projected cost savings, and eventually had to repurchase the equipment necessary to offer the service in-house. This experience illustrates the importance of arriving at some method of comparing the cost of government provision of a particular service against the costs of contracting with a private firm.

Once the accurate cost of performing a particular service has been calculated, its fiscal performance relative to that of other entities in the industry can be compared. The
governing officials within a particular locality can then decide upon the course of action that will be of the most overall benefit to constituents. At the very least, they will be acting from an informed position, regardless of the course of action taken. Again, government officials may wish to review the cost-accounting methods of other providers within the industry being considered for privatization to help determine the actual costs incurred in providing their service.

DECIDING WHICH METHOD TO USE

As mentioned earlier in this study, there are a wide variety of privatization methods available to municipalities seeking to outsource a service. It is difficult to make specific recommendations in this area, as each service has unique qualities that lend themselves to particular types of privatization. In general however, those responsible for serving the public interest should endeavor to conduct a serious analysis of the issues raised during the conceptual stages of development. After a comprehensive understanding of these issues is attained, their attention should be turned to implementing the method most suitable for meeting the needs of the community, whether it is outsourcing, managed competition, or outright divestiture.

In this area especially, municipal leaders owe it to themselves and to their constituents to review privatization efforts previously implemented within their industry. By looking at projects developed within similar communities, the effectiveness of a particular method can be evaluated. In any case, municipal officers should endeavor to
make as well informed a decision as possible, as the privatization method chosen will play a very significant role in the success or failure of the entire effort.

At the very least, public administrators will want to design a system that encourages competition, protects the agency, and clarifies the expectations of those providing public services by spelling out the service specifications desired. Without exception, the bidding process used to outsource a service should be open and competitive. Public administrators involved in awarding contracts should be free of any financial interest in the contract, and all bid awards should be publicized, with documentation on the search for contractors.

THE ELEMENTS OF SUCCESS

After the methodology to be employed has been chosen, government officials will begin to put together the intricacies of their privatization plan. This phase of the process is arguably the most crucial, and public officers must take care not to become overwhelmed by the process as a whole. To be more specific, a great deal of effort is required to ensure that each and every component of a municipality’s plan to remove itself, at least in part, from the provision of a good or service is sound.

In its infancy, the privatization process is particularly vulnerable to a lack of communication. The process will almost certainly result in failure if communication between all parties involved is not clear and complete. Expectations and performance standards must be clearly articulated by the government at this stage, and documented in
written form to provide both the government and the contractor with adequate protection in the event of a legal dispute.

In the instance studied by the author, it was found that there was very little communication between the government agencies collaborating to put the contract together. Based on information from Mr. Wilson and Mr. Lee, it appears that the City of Los Angeles attorneys and contract preparation experts had very little experience in the specific automotive issues at the heart of this matter, so Fleet Services management negotiated the terms of the deal. At this point, Fleet Services handed the information over to the aforementioned contract experts to formalize the terms of the agreement.

Unfortunately, these contract professionals assumed the information provided was arrived at by experienced negotiators, and there is no evidence that an analysis of the information was made. The failure of Fleet Services to maintain communication between themselves and the City’s contract professionals, thus ensuring their position was clearly articulated, led to the drafting of a contract that differed from the intent of Fleet Services management. This communication breakdown resulted in ambiguous contract language left undiscovered until too late. The contract’s provisions were drawn up such that the City was unable to prevent subsequent price increases. While the contractor performed well for a short period of time, it did not take long before the first cost increase supposedly incurred by the company was passed onto the City.

One of the reasons the contractor was able to force this price increase upon the City was his clever offer to buy the equipment the City was using to provide heavy-vehicle towing service to its internal Departments. In their eagerness to save money, and not envisioning the possibility that the City may have to provide the service again, Fleet
Services executives agreed to the sale. When the contractor raised costs, however, the City was left with no negotiating power, as it lacked the means of production necessary to resume providing the service.

Until more recent times, contractors have had the edge on most city personnel in terms of negotiating contracts with the municipalities. Their experience in contracting with multiple entities has allowed these service providers to take advantage of every ambiguous city charter and exploit every loophole in city business practices. For this reason, it is critical that municipal employees cooperate with one another, and remain in continuous contact throughout all phases of the privatization process to ensure the citizens of a municipality will benefit from the arrangement.

Public administrators responsible for procuring goods and services with public money must be thoroughly familiar with an array of complex federal, state, and local legislation governing procurement practices. In addition, the selection of those that will provide goods or services to the public should be the result of a regulated, fair process that is subject to public scrutiny. By employing knowledgeable personnel and by developing sound procurement practices, public agencies can, according to the California Construction Law Manual (Acret, 1975)

- Protect the public against collusive contracts, secure fair competition upon terms equal to all bidders.
- Remove not only collusion, but the temptation for collusion and opportunity for gain at public expense from the privatization process.
- Close all avenues to favoritism and fraud in its various forms.
- Secure the best value for the public at the lowest possible cost.
- Afford equal advantage to all those desiring to do business with the public by affording an exact comparison of bids.
Turning to Fleet Services' attempt to contract out part of its vehicle towing service, the importance of the negotiating process in outsourcing was clearly an area in need of further attention. Arguably, "one of the primary advantages of negotiating a contract is the greater degree of mutual agreement which can be reached through the intercourse of negotiations" (Collier as quoted in Clark, 1998). Fleet Services suffered the effects of not adhering to this principle, by neglecting to clearly state its expectations and follow up to ensure they were met at the conclusion of negotiations. If done correctly though, negotiations lead to a clear understanding of the type of work to be done and expected performance levels by all parties to the agreement. As such, it is recommended that public officers utilize the negotiation process to set the tone for what is expected after privatization is integrated into the realm of public service.

Further, Fleet Services neglected to utilize the Request for Proposal (RFP) process to its advantage, by not requiring the contractor to clearly spell out how it would perform its service and charge fees. The contractor who won the bid, for example, employed an answering service after 5:00 p.m., staffed by persons totally unfamiliar with vehicle dispatching. As such, Fleet Services had no direct contact to the towing service provider when requesting after-hours service. The substantial increase in service call response times had a profoundly negative impact on the cost savings Fleet Services had been promised when outsourcing this service.

Generally, public administrators will want to require the contractor to describe how they will perform the service, provide a detailed estimate of the costs associated with providing the requested service, and inventory the equipment to be used in providing the service. Under any circumstances however, contractors responding to an RFP should be
required to provide evidence of financial solvency, and bring forward evidence of professional qualifications.

POLICE POWERS

Although municipalities generally regard their job as done once a privatization agreement has been drawn up, it is in fact where the story really begins. Monitoring a contract is "the chief means of safeguarding against contracting problems once the contract is assigned and of ensuring that citizens are obtaining high quality services at competitive prices" (Rehfuss 1993). Also, as addressed throughout this study, performance measures are essential if the government is to truly benefit from privatization. Clearly, the

Removing government from directly providing a service allows public administrators to mobilize their energy and resources into ensuring the service is provided efficiently and cost effectively (Shaffritz and Russell 1997, 11).

The heads of municipal government should, therefore, empower their agencies to manage a broad network of service providers and privatization arrangements. Perhaps this is best done by endowing an individual or group with the authority and responsibility to identify privatization opportunities and potential contractors, overseeing the request for proposals process, evaluating vendor proposals, managing contract relationships, and policing contractors' performance.

Thus, this individual or group's sole mission would be the identification of services that might be better performed by private contractors. Instead of devoting ancillary resources to moving forward with such an effort, this officer or agency could bring all of its resources, experience, and dedication to the development of a sound
privatization plan to bear on a particular situation. In creating a comprehensive monitoring solution, public administrators are encouraged to include contractor reports, establish a system to log and address citizens’ concerns, and randomly distribute performance surveys to the community. Here again, municipal officers must take the initiative to examine similar privatization efforts undertaken in the past. As much information as possible should be wrung out of these important case studies, which are an important and readily available knowledge-based tool.

Finally, public administrators should follow the following checklist, developed by Kenneth Clark, to effectively monitor a firm’s performance:

1. Performance standards should represent or approach the outer limit of what the contractor is expected to accomplish.
2. Performance standards should address both qualitative and quantitative issues, such as the contract period and under what conditions it might be extended.
3. These standards should be practically attainable by the contractor.
4. Procedures for documentation and dispute resolution should be in place, and clearly understood by all parties to the agreement.

The following provisions for enforcing and responding to contractor performance, developed by the Wisconsin Legislative Audit Bureau are also valuable tools. At the very least, they protect the public interest against manipulative contractors.

1. Require the contractor to hold performance bonds.
2. Establish penalties for non-performance, including description of the conditions under which penalties will be assessed and enforced.
3. Document procedures authorizing contract termination, and specifying the conditions that would warrant such action. Although there is no foolproof method, the above checklists offer simple suggestions to ease the ongoing process of monitoring and responding to vendor performance. The basic premise behind each is that responsibility must be clearly assigned to the individual or entity that will have oversight, and efforts should be made to ensure that the persons involved have the requisite experience and authority to assess service quality and enforce contract provisions.

PUTTING TOGETHER THE PIECES

The journey towards a successful privatization program is by no means an easy one. It is an arduous trek, and will try the patience of government officials. All throughout, public administrators will face obstacles, in the form of difficult decisions, opposition from those interested in preserving the old order, and the vexing process of conducting accurate accounting measurements and projections.

One thing remains clear, though. Simply put, privatization is here to stay, and modern public administrators should view it as another arrow in their quiver, rather than something to be feared in whatever forms it takes. The public places the utmost trust and esteem in the abilities and skills of elected officials, who in turn employ and oversee those responsible for bringing a wide array of services to the citizens of their communities. Public administrators must return that trust by using any reasonable means to meet the needs of their constituents.
For privatization to work, public officers must spend more time developing the conceptual framework of a privatization program to determine if the service should be privatized at all. Care must be then be taken to objectively analyze the effectiveness of proposed actions at every turn, without studying them to excess. Information from prior privatization efforts conducted in similar communities should be brought to the table as well, to afford a municipality with as many privatization options as possible. More importantly, every resource available should be employed to ensure the contract is drafted correctly. Communication should remain continuous and open at every step along the way, with each party to the agreement accurately representing their views and concerns.

Finally, performance measurements should be implemented that are both clearly understood and easily quantifiable. Procedures should be put into place to resolve disputes that may arise over the duration of the contract, to protect both the municipality and the contractor. Building a comprehensive and user-friendly monitoring process into the privatization effort will go a long way in assuring the municipality realizes most or all of the anticipated benefits. Public administrators must never lose sight of the fact that the citizens of the community being served depend upon them to provide quality uninterrupted service.

The key ingredients in a successful privatization plan are thoughtful public administration and an understanding of the potential dangers of contracting with profit-motivated firms. Government leaders must analyze all of the material gathered to render the decision to privatize or stay in-house in its proper context as well. Simply put, government is responsible for assuring public services are delivered competently
regardless of the service provider. In addition, decision-makers cannot fail to project the long-term capacities of government agencies to monitor service providers, and the costs of doing so. Ultimately though, all that can be expected is that public administrators act responsibly in steering the futures of their respective communities by following the above guidelines in seeking to privatize a service.

Hopefully, the information that was provided during this study was insightful, clearly presented, and thought provoking. This discourse is intended as a guide for public administrators to follow while developing a privatization plan, and aims to challenge them to leave no stone unturned in their effort to serve the public interest. Moreover, this study hopes to instill a sense of duty in the modern public administrator to exercise care in expending scarce public resources. By exercising this care, and keeping the citizens' needs in their thoughts, a public administrator will have already have won half the battle of doing what is best for the future of their community. In closing, it is the author's fondest wish that this study will aid the reader's quest for further knowledge on the topic of privatization, and that this knowledge will one day be transposed into greater governmental efficiency.
RESOURCES


Campbell, Carol R. *Privatization, Profits, and Publicity: The New Trinity.* The Written Word (online article), 2001

Chrisinger, Jim. *Managed Competition Pilot Projects: Iowa Department of Transportation.* National Academy of Public Administration, 1996


Manning, Kenneth R. *Can Constituents Benefit From a Collaborative Approach to Public Sector Problems?*. Northridge, CA: Graduate Project, December 1999


Munoz III, Miguel A. *Does Privatization in the Public Sector Work?*. Northridge, CA: Graduate Project, August 1998


The Worldbank Website: (Worldbank.org)

The Reason Public Policy Institute Website: (rppi.org)

Interview with David O. Wilson, General Automotive Supervisor from 11:30 am to 1:00 pm on April 26th, 2001.

Interview with Kevin Lee, Automotive Engineer II, from 11:30 am to 12:15 pm on April 24th, 2001.

Interview with Ron Patitucci, Equipment Specialist II, from 8:15 am to 8:50 am on April 25th, 2001.