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## LOCAL GOVERNMENT CONTRACTING WITH THE PRIVATE SECTOR

Patricia S. Florestano

## INTRODUCTION

A contemporary exploration of the concept of "private sector delivery of public services" is necessitated by the fiscal "facts of life" prevalent in most local jurisdictions today. Documentation of the mounting costs of local government is readily available. All informed projections suggest that because of inflation and increased labor costs, this spiraling increase will not level off in the near future.

At the same time, local officials who have been pressured by their constituents to contain, if not decrease, expenditures suddenly find themselves facing Proposition 13 and Proposition 2 1/2 type legal restraints, either on expenditures or on their authority to raise revenue. Local officials are being forced to assess the performance of their local government and to seek ways to increase its efficiency and productivity.

## LITERATURE

Scholars and practitioners alike propose that contracting out of public services can supply at least a partial answer to the financial problems of public officials. Bish and Ostrom (1973), in a study of government in metropolitan areas, said that public contracting with private firms would improve government efficiency. They pointed to Scottsdale, Arizona's, contract with a private fire company (Ahlbrandt, 1974), and to development of the Lakewood Plan in California (Cion, 1966; Hollinger, 1968) as examples of successful contracting. In a major study on solid waste management, Savas (1976) said that governments save money by turning to private firms to deliver that service. Colman (1975), testifying before the House Intergovernmental Relations Subcommittee, said that contracting interjects into the public service demand and delivery equation the variables of competitive price and alternative supply sources.

A handful of research projects conducted

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The material on which this presentation is based comes from three separate pieces of research: "Public vs. Private: Small Government Contracting with the Private Sector," by Florestano and Stephen B. Gordon, *Public Administration Review*, Jan./Feb. 1980, Vol. 40, No. 1; "A Survey of City and County Use of Private Contracting," by Florestano and Gordon, *The Urban Interest*, Spring 1981, Vol. 3, No. 1; and an unpublished manuscript, "County and Municipal Use of Private Contracting for Public Service Provision," by Florestano. The material was used in this fashion because of the interest of the conference attendees in small jurisdictions and in those in the Northeast.

during the last few years indicate that some shifting of functions from public to private sector may be occurring. In studies published in 1973 and 1974, Zimmerman reported that private firms play a major role in providing services to local governments. Additionally, the National Council on Productivity contracted with The Urban Institute in Washington, D.C., in the early 1970's for a study of service contracting (Fisk, Kiesling and Muller, 1977).

Based on the concept of economies of scale, the types of activities contracted out by large jurisdictions theoretically should be those where small productive units are more efficient, in contrast with small jurisdictions which should be contracting for activities where either larger or more specialized units are more efficient (Phares, 1974).

Therefore, we would expect that large jurisdictions in search of reduced costs may be contracting out services which have been observed to have diseconomies of scale. For example, in classifying public services according to economies of scale, Break (1967) found economies of scale for transportation, health and hospitals, water supply, sewage disposal, refuse disposal, air pollution, planning and special police services. On the other hand, he noted diseconomies of scale for welfare, basic police, fire protection, refuse collection, parks and recreation, and public housing.

The potential for contracting with the private sector appears to be greatest among smaller jurisdictions. With a population of less than 50,000, small governments often do not have sufficient revenue to fund the maintenance of large numbers of highly trained or specialized personnel. Many local governments do not have sufficient geographic area, or taxable resources, to apply economies of scale to public service delivery. Public services which are capital intensive because much of the cost is tied up in physical plant or public works may well be beyond the capacity of a small local government to deliver.

From another perspective, service "tangibility" may be as important as size in contracting (Fisk, Kiesling and Mullen). A service such as street construction or solid waste collection wherein a contract can be written so that the details are clearly defined is a more likely candidate for contracting out than one with more intangible dimensions such as police patrol services. Also, new or more recently provided services, such as day care, drug abuse treatment, and senior citizen programs may be more likely candidates for contracting out than are traditional local services such as police protection or fire fighting.

## METHODOLOGY

The data upon which this research is based are drawn from responses to a questionnaire sent by the National Institute of Governmental Purchasing to local government member agencies in

fall, 1977. The Institute is a nonprofit educational and technical organization whose membership is composed of the purchasing and supply officers of federal, state, city and special district governments in the United States and like units in Canada.

By using the questionnaire, we sought to answer the following limited questions on contracting:

1. How widespread is the practice of local government contracting?
2. Which public services are most frequently contracted out?
3. What services constitute the largest dollar volume contracted out by each jurisdiction?
4. What procedures, criteria, and safeguards are utilized by local governments in contracting out with the private sector?
5. How do administrators in cities and counties view the practice of contracting out?
6. What, if any, are the differences between the practices reported by the cities and the counties.

#### FINDINGS

Analyzing the 225 replies of the municipalities and counties on the basis of size of population shows 89 percent of the 55 counties are over 100,000 population and 74 percent of the 170 municipalities are under 100,000 population. Eighty-nine of the responding municipalities had 50,000 population or under.

A breakdown of the respondents by geographic region shows that the largest number of responses for both city and county came from the North Central and Southern Regions of the country and the smallest number from the West. In the Northeast, seven were cities of 10,000 to 24,999 in population; five were cities of 25,000 to 49,999.

Respondents received a suggested list of local services and were asked to check all those in each community which are provided in whole or in part by a private contractor. Table 1 is based on the frequency with which each service is checked as one contracted out in whole or in part by all the municipalities and counties. Table 2 shows the breakdown for the 89 cities of 50,000 or less population.

As shown in Table 1, the most frequently contracted services for all counties and cities are architectural, engineering, street construction, and building repair. More than one-half of the 225 respondents contract out for those four services. Over one-third of the respondents also contract out for solid waste collection.

In Table 2 the most frequently contracted services for the 89 small cities are: street construction, architectural services, engineering services, legal counsel, building repair and solid waste collection.

Looking at the small city information from a geographical perspective, the North Central region contracts out at a higher rate than the other 3 regions. The average number of services in the North Central region is 9; in the Northeast, 7; in the West, 6; and in the South, 5.8. Based on size of city, those under 10,000 in

population average 9.8 services; those between 25,000 and 49,000 average 7; those between 10,000 and 24,999 average 5.

In terms of the number of services contracted out, the cities overall exhibit the most variation in contracting. Only cities contract 18 or more services. Thirty-one percent of all the cities contract 10 or more; none of the counties contract out as many as 17 services.

These services can be examined from the perspective of type of service; that is, they can be classified as professional services, housekeeping services, or services directly delivered to the citizens. Table 3 shows that professional or housekeeping services (architectural, legal, engineering and land use) were most likely to be contracted out, while services delivered directly to the citizen were less likely. Among the latter, only solid waste collection and ambulance services were named by more than one-third of all city and county respondents. It is also of note that those citizen services contracted most frequently were the newer or less traditional services delivered by government, such as day care, elderly care, and halfway houses. Services that are traditionally associated with government, such as police, fire and education, are less likely to be contracted out.

Respondents were asked for information about the contracted service which constituted the largest dollar volume. No service predominated in either the counties or cities. Among the cities, solid waste collection, building equipment, street maintenance, building repair and bus service were each listed by one municipality or more. Among the 89 small cities, professional services such as architectural, engineering and legal, were named by 33%; solid waste collection by 24%; street construction by 20%.

Respondents from all cities and counties cite three major criteria upon which a contract is awarded: price is the most significant, followed by documented past performance and present capability. Among the 89 small cities, past performance was most important, followed by price and capability. A number of respondents also noted political considerations. The length of time for which these contracts were awarded varied, but the average contract period for all counties and cities was one year. That was also true for the 89 small cities.

Two forms of incentives were offered to the contractor to ensure satisfactory performance: first, automatic, noncompetitive renewal contingent upon satisfactory performance during the previous contract period; second, a form of financial penalty or reward. Among the 89 small cities, 45 percent cited some form of financial penalty or reward system. Thirty percent used automatic, noncompetitive renewal (contingent upon satisfactory performance during the base period).

Respondents were given a list of value judgments about the practice of contracting out public services to private contractors. They were asked to indicate those value judgments with which their general experience would lead them to agree, as follows:

- a. Contracting out costs less than, about the



Table 1: Services Contracted Out by Type of Jurisdiction

Service	County		Municipality		Total (225)
	(55)	%	(170)	%	
Architectural Services	47	85	134	79	181
Engineering Services	37	67	112	66	151
Street Construction	31	56	126	74	149
Building Repair	29	53	85	50	114
Solid Waste Collection	31	56	64	38	95
Equipment Maintenance	20	36	67	39	87
Legal Counsel	13	24	64	38	81
Building Maintenance	21	38	50	29	77
Ambulance Services	20	36	61	36	71
Vehicle Maintenance	15	27	55	32	70
Administrative Support	14	25	49	29	63
Children's Day Care	6	11	52	30	58
Food Service, Employees	20	36	29	17	54
Elderly, Nursing	13	24	41	24	51
Land Use/Planning	6	11	45	26	49
Halfway Houses	11	2	30	17	41
Street Maintenance	12	22	27	16	39
Snow Removal	12	22	25	15	37
Grounds Maintenance	13	24	19	11	32
First Aid, Employees	4	07	27	16	31
Elderly, Recreation	4	07	23	14	27
Leaf Collection	8	14	8	05	16
Public Recreation	3	05	12	07	15
Misc. Police Services	4	07	5	03	15
Police Communications	2	03	13	08	10
Building Inspection	4	07	6	04	9
Janitorial Services	3	05	4	02	9
Transportation related <sup>a</sup>	2	03	5	03	7
Park Maintenance	2	03	7	04	7
Consulting, Misc.	0		3	02	7
Sewer/Water/Sanitation <sup>b</sup>	6	11	1	005	7
Uniforms-Laundry/Rental	5	09	2	01	3
Escalator/Elevator Repair	0		1	005	1
Standard Deviation		3.7			
Mean Number of Services		7.7		7.8	
Range		1-19		0-23	

<sup>a</sup> Includes towing, hauling, buses, toll bridges, etc.

<sup>b</sup> Includes treatment, testing, recycling, landfills, meters.

same as, more than government delivery of services.

b. Contracting out results in poorer service, about the same quality of service, better quality of service to citizens than government delivery of services.

For all cities and counties, the responses indicate that the majority of respondents believe that such contracting out costs less and provides the same or a better quality of service. Over one-third of all the municipal administrators and one-half of the county administrators think that contracting out costs less than government provision. A larger proportion of municipal officials than county officials believe that contracting results in better quality than government provision. Less than 10 percent of both groups think that quality of service is poorer under contracting. Table 4 shows the percentage of small city respondents who agreed with each statement, together with a breakdown by region. The data

show that the largest portion of the 89 small city respondents viewed contracting as costing less and providing better service. With regard to quality of service, the Northeast sample gives the strongest support to the idea that contracting is better. The majority of respondents in the Northeast, however, believe that contracting costs more than government delivery of services.

Table 5 shows the percentage of the 89 cities which agrees with each statement on the basis of size of city. With regard to quality of services and lower cost, the strongest support comes from the middle-sized (10,000 - 24,999) among these.

#### CONCLUSIONS

What have we found? Unfortunately, the findings are somewhat conflicting. First, municipal and county administrators believe that private contracting is economical and possesses the potential to provide the same or better quality

Table 2: Services Contracted Out by Region and Population Size of Municipality

Service	Region by Population Size of Municipality (000-999)									Total
	Northeast		North Central			South			West	
	10-24	25-49	1-10	10-24	25-49	1-10	10-24	25-49	25-49	
(Number of Municipalities)	(7)	(5)	(12)	(15)	(14)	(5)	(18)	(7)	(6)	(89)
Street Construction	5	3	8	10	12	3	12	7	5	65
Architectural Services	4	4	6	5	11	3	12	8	6	59
Engineering Services	5	4	8	5	8	3	10	5	5	53
Legal Counsel	6	1	3	6	7	3	9	3	2	41
Building Repair	2	2	3	5	10	2	9	4	3	40
Waste Collection	2	3	8	9	9		6	1	1	39
Ambulance Service		3	5	2	5		10	2	2	29
Day-Care for Children	1	2	5	4	4	2	5	2	1	26
Land Use/Planning Services	4	1	4	3	4	3	5	2		26
Equipment Maintenance	3	2	4	3	3	1	3	2	1	22
Lodging and Nursing Care for the Elderly		2	4	2	3	1	6	2	2	22
Administrative Support	4	1	1	3	4		6	2		21
Vehicle Maintenance	2	1	4	4	2	1	4	1	2	21
Building Maintenance	1	1	2	2	2		4	3	1	16
Street Maintenance		1	4		4		3	2	2	16
First-Aid for Government Employees			2	2	2		4	2		12
Halfway Houses		1	2	1	1		5	2		12
Recreational Activities for the Elderly		1	5	1	1		1			9
Snow Removal	1	2	2		2				1	8
Food Service for Government Employees		1	1	1	2		1	1		7
Grounds Maintenance	1	1	1		3		1			7
Recreation Programs for General Public			2	2			1	1		6
Police Communications		1	3		1		1			6
Police Service			2		1	1			2	6
Leaf Collection	1	1	1	1	1		1			6
Park Maintenance		1	2	1			1			5
Building Inspection			2	1	1		1			5
Total Services by Region and Size of Municipality	41	40	183	73	103	23	121	52	36	585
Average Services per Municipality	5.8	8	15.2	4.8	7.3	4.5	5.7	7.4	6	6.6

From: Public Administration Review, Jan./Feb. 1980, p. 31.

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Table 3: Classification of Services Contracted  
(N = 225)

Frequency	Type		
	Professional	Housekeeping	Direct Citizen Delivery
50% or more	Architectural Services	Street Construction	
	Engineering Services	Building Repair	
33 to 49%	Legal Counsel	Equipment Maintenance	Solid Waste Collection Ambulance Services
15 to 32%	Land Use/Planning	Building Maintenance	Elderly, Nursing
		Vehicle Maintenance	Child, Day Care
		Administrative Support	Halfway Houses
		Food Service, Employees Street Maintenance	Snow Removal
5 to 11%		Grounds Maintenance	Elderly, Recreation
		First Aid, Employees	Leaf Collection
		Police Communications	Public, Recreation

Table 4: Administrators' Opinions About Contracting by Region

Statements	All Responses (N=89)	Region			
		Northeast (N=12)	North Central (N=41)	South (N=30)	West (N=6)
a) Costs less	40%	25%	48.7%	33%	16%
b) Costs same	19	1	21.9	20	16
c) Costs more	33.7	41	26.8	33	66
c) Poorer service	10		12	10	16
d) Same service	22		26.8	30	
e) Better service	41	66	41	36.6	16

Table 5: Administrators' Opinions About Contracting by Population Size of Municipality

Statements	All Responses (N=89)	Population Size		
		Under 10,000 (N=17)	10,000-24,999 (N=40)	25,000-49,999 (N=32)
a) Costs less	40%	17%	50%	37.5%
b) Costs same	19	11	15	28
c) Costs more	33.7	47	27.5	34
d) Poorer service	10	23.5	2	12.5
e) Same service	22	35	25	12.5
f) Better service	41	23.5	55	40.6

Table 4 and Table 5 are from Public Administration Review, January/February 1980, p. 33.



services than government provides. Second, municipalities and counties are providing a wide variety of local services through private contracting. But the majority of local services is not yet provided in this way. The approximate average number of services provided by cities and counties is eight. The Advisory Commission on Intergovernmental Relations (1971) lists 58 government functions that are being provided by local governments; we suggested a possible 26 or more services. From that base, an average of eight does not indicate a rapid changeover from public to private delivery. Among the 89 small cities, three-fourths provided less than one-third of their government services through private sector contracts.

Our findings suggest that traditional governmental services such as law enforcement, which were not being contracted out when earlier surveys were performed several years ago, are still not being contracted out in municipalities and counties today. It is evident that neither type of local jurisdiction is changing over rapidly to private delivery of the majority of local government services. But the generally supportive attitude of the procurement administrators suggests that they see contracting as a positive procedure, one with valuable payoffs in program flexibility, economy, and reduction of governmental problems.

The question is: why are these governments not making a more massive movement toward the use of private sector contractors? Because further research is needed to ascertain what are the real or perceived obstacles to utilizing contracting, we can only speculate. Several factors may be at work. It is very likely that in numerous states, some form of legal barrier, either local ordinances or state law, is prohibitive of such activity. A second type of barrier is undoubtedly the opposition raised by unionized public employees who fear either loss of job or reduction in benefits. Third, there may be apprehension as to the possibility of increased avenues for corruption through bribery or kickbacks. In addition to issues of such a concrete nature, conjecture suggests that there are less tangible hurdles to be overcome also. Contained herein is a small sample of administrators' attitudes; there is no information on citizen support. It may be sufficient, or there may be outright opposition from citizens unfamiliar with the concept of contracting out. One can venture a guess that if citizen support were strongly in favor of contracting, the procedure would be growing at a faster, more visible pace.

One of the explanations of the slow changeover to private provision of public services may lie in the intangible factors cited by Lindblom (1959, 1968), Wildavsky (1964), and others as being barriers to rational decision making. In general, local governments have neither the time, staff, nor funds to devote to comprehensive analysis and evaluation of alternative means of providing various governmental services. For these jurisdictions, continuance of the status quo is frequently the only feasible action.

With growing citizen pressure for more

productivity, efficiency, and economy in local government, public attitudes may become more receptive to change in this direction. It remains to be seen whether in the near future, as the squeeze between rising expenditures and declining revenues becomes more intense, localities will turn to private sector provision of additional services.

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