



TRENDS IN PUBLIC AND CONTRACTED GOVERNMENT SERVICES: 2002-2007

by Mildred E. Warner and Amir Hefetz

INTRODUCTION

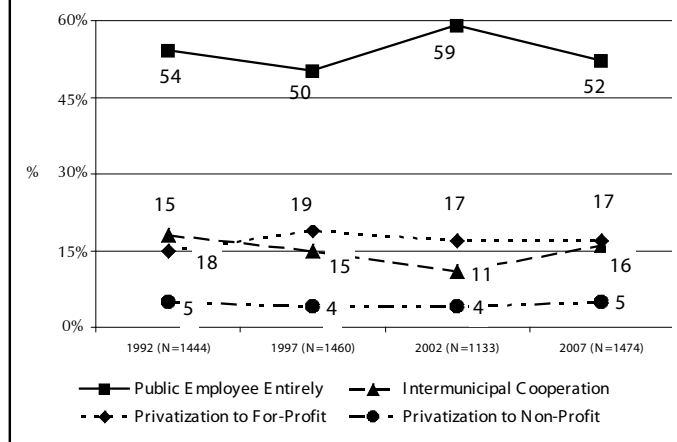
Local governments in the U.S. use a variety of mechanisms to deliver public services. The International City County Management Association (ICMA) conducts a survey of alternate service delivery by local governments every five years. For those interested in understanding the role of privatization in local government service delivery, the ICMA surveys are the best barometer of local government practice across the United States.¹

The 2007 survey (supported by the Searle Freedom Trust) shows that public delivery is still the most common form of service delivery at 52% of all service delivery across all local governments on average. Intergovernmental contracting at 16% and for-profit privatization at 17% are the most common alternatives to public delivery. Non-profit delivery at 5% is next, and franchises, subsidies and volunteers collectively account for less than 2% of service delivery. Compared with 2002, the levels of for-profit privatization and non-profit contracting are flat, and intergovernmental

contracting rises from 11% to 16% of service delivery. Direct public delivery fell from 59% in 2002 to 52% in 2007.² Averaged across all governments and all services, the trends in local government service delivery are relatively flat. See Figure 1.

However, there is a dynamic movement across services and across governments that is hidden in the overall trends. Governments of different types select

Figure 1: Local Privatization Trends in the United States



these alternatives in different patterns. In this movement we see experimentation, managerial learning and diffusion of innovation about contracting across local governments.

In this article we look at trends from 2002-2007 with a special focus on differences in service delivery patterns by metro status. The 2007 survey received 1,474 useable responses from counties and cities across the country. The majority were suburbs (784 cities, 53%), and the rest were metro core municipalities (262 cities, 18%) and rural areas (428 municipalities, 29%).³

Local governments experiment in various types of service delivery. The levels of contracting go up and down over time and vary across metro status. The “reinventing government” reforms of the 1990s saw a rise in for-profit contracting among all governments from 1992 to 1997. In fact, in 1997 for-profit contracting peaked nationwide at 19%. Over the last decade suburbs have consistently had the highest rates of contracting. Metro core governments, which had lagged behind suburbs in their level of contracting, appeared to be catching up. However, between 1997 and 2002 contracting leveled off for suburbs and metro core municipalities. Rural governments also paralleled the increase in contracting of their suburban and metro neighbors from 1992-1997 albeit at a lower level. However from 1997-2002 rural governments’ use of contracting dropped precipitously.⁴

In the 2007 ICMA survey we see a different story emerging. For-profit contracting rates of suburbs increase slightly, but rural use of for-profit contracting increases dramatically—almost back to the peak levels in 1997. Metro use of privatization, by contrast, falls. This article seeks to understand these trends. We believe that the rural resurgence reflects a diffusion of the innovation process where rural areas catch up with contracting, especially for relatively easy-to-contract services (waste collection, for example). But the metro decline may reflect a different kind of managerial learning. Here we see declines in contracting in services that we earlier thought should be easy to contract, but may have proven difficult to contract and monitor, though it may also reflect other policy and

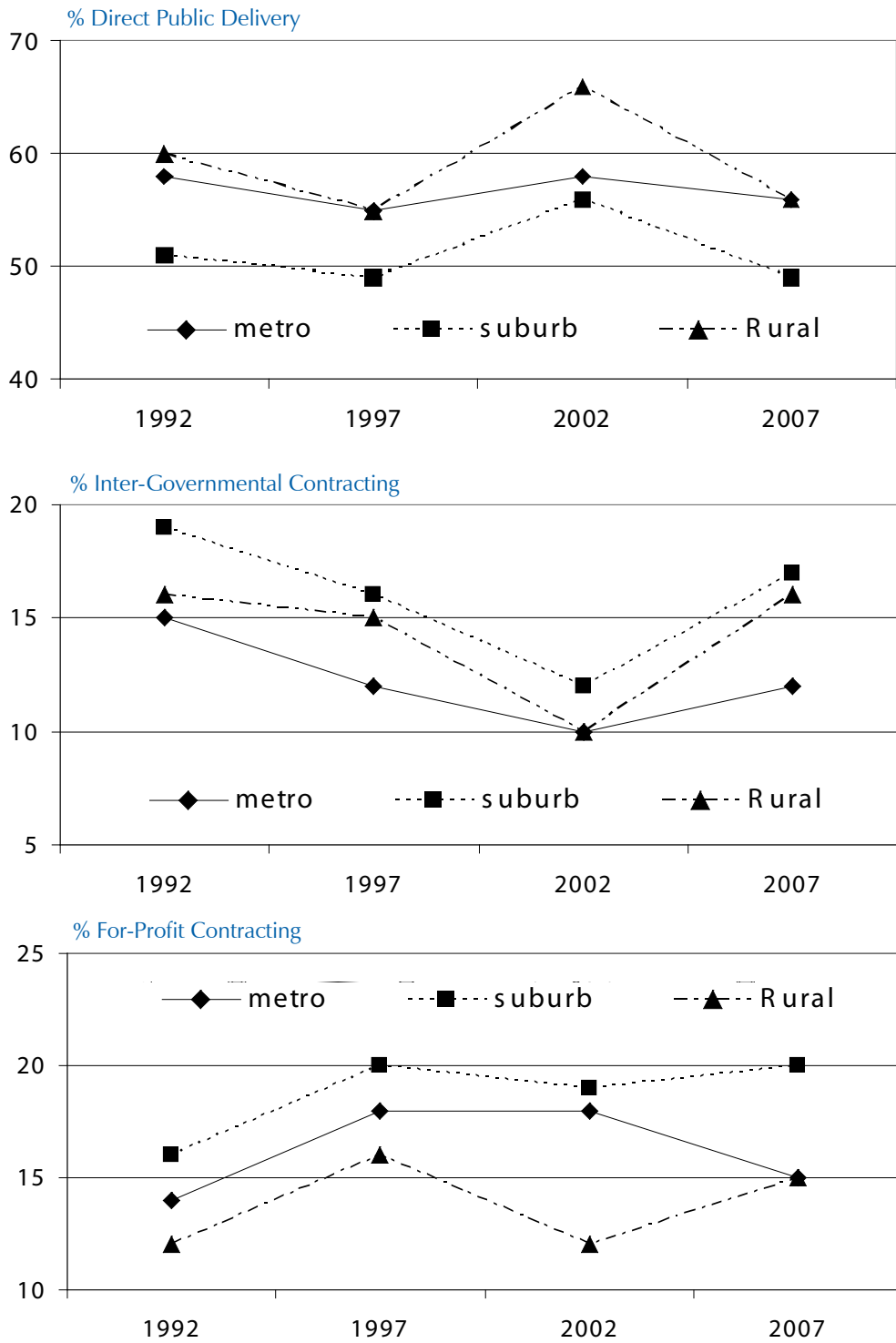
political changes (fleet management, for example).

In some cases these services have come back to public delivery (fleet management, et. al.) and in other cases intergovernmental contracting has grown (airports, hazardous waste, et. al.). Intergovernmental contracting is an important alternate form of contracting. It enables local governments to share expertise and equipment, reach economies of scale in service delivery and promote regional coordination while maintaining familiar avenues for citizen input and accountability. Contract monitoring among local governments is low—just over half of metro places and suburbs, and barely a third of rural governments. Low rates of external monitoring may lead governments to prefer contracting alternatives that keep the service in the public sector.

DIFFERENCES IN CONTRACTING LEVELS BY METRO STATUS

The three primary alternatives in service delivery are: direct public, for-profit contracting and intergovernmental contracting. The ICMA surveys also measure mixed public and private delivery, non-profit contracting and franchises but the focus of this article will be on the primary three.⁵ Figure 2 provides comparisons across these three delivery options. The top graph shows the level of direct public delivery, which has hovered around 50-60% of service delivery.⁶ But in 2002, we see that public delivery rose as contracting levels fell and this rise was most pronounced for rural areas. It was as if contracting markets failed and the only option was to return to public delivery. Also, intergovernmental contracting rates had been steadily dropping over the 1992-2002 decade. Intergovernmental contracting had been a preferred alternative to for-profit contracting for rural areas as a means to gain scale efficiencies by cooperating with neighboring governments. However from 1997 to 2002, as for-profit contracting fell, so too did intergovernmental contracting. In 2007 we see a rebound, especially for rural areas. For-profit contracting and intergovernmental

Figure 2: Average Percent Use of Alternate Service Delivery by Metro Status



Source: International County and City Management Association, Alternative Service Delivery Surveys, 1992, 1997, 2002, 2007; Washington DC. Author analysis based on place average. N=1444 (1992), 1460 (1997), 1133 (2002), 1474 (2007).

contracting are up. However for metro core communities, for-profit contracting levels have fallen. In this article we will look closely at some of the services to better understand what caused this shift.

DIFFERENCES IN CONTRACTING LEVELS BY SERVICE

The ICMA surveys measure delivery choices for 67 different municipal services. Looking across these services and over the 2002-2007 period we see that for most services for-profit contracting levels are flat or falling. The only services experiencing significant increases in for-profit contracting are residential and commercial solid waste collection, electric and gas utilities, hospitals and child daycare. For rural areas, drug programs, insect control and emergency medical services also show increases in for-profit contracting.

Waste collection is a service area with a lot of experience with contracting. The potential for economies of scale, new technology and vertical integration (from collection to disposal) has brought solid waste to one of the highest levels of for-profit delivery. For-profit delivery levels in rural areas are still lower than in suburbs, but the increases from 2002-2007 are among the highest for any service. Metro

core areas are on the only ones to show a decrease in for-profit contracting for waste collection.⁷

Electric and gas utilities have significantly increased for-profit contracting. This increase has come at the expense of direct public delivery as local governments are getting out of the business of being the direct provider of gas and electric utility services.

Hospitals also show large increases. For-profit hospitals are becoming more common and now are the delivery mechanism for more than a third of municipalities. For rural areas, for-profit hospitals are even more common, accounting for 43% of responding governments. Metro areas have dramatically dropped public service of hospitals from 33% to 6% of responding governments. Intergovernmental contracting for hospitals, which was very common, has dropped more than 20% among both metro and suburban governments. The shift has been to for-profit and non-profit hospitals. In rural areas, by contrast, intergovernmental contracting for hospital services is growing. Across all local governments, hospital services are now provided primarily in one of three ways: intergovernmental contracts, for profit contracts or non-profits.

Rural areas show an increase in for-profit delivery of insect control and emergency medical services. This reflects a catching up to average privatization levels as experienced by metro and suburban governments. In child day care, rural areas not only caught up, but they surpassed the level of for-profit contracting of their suburban and metro neighbors. This may be due to the lack of non-profit alternatives in rural areas.

Despite these gains, for-profit con-

Table 1: Use of Alternative Service Delivery Forms by Metro Status

Service	% Use 2007			% Point Change 2002-2007		
	Metro	Suburb	Rural	Metro	Suburb	Rural
Direct Public Delivery						
Res. Waste Collection	52.7%	24.1%	41.7%	2.3%	-10.9%	-16.9%
Comm. Waste Collection	35.2%	13.7%	29.9%	5.2%	-10.0%	-22.2%
Waste Disposal	33.5%	16.0%	38.8%	-7.4%	-4.2%	-6.8%
Hazardous Materials	26.5%	10.6%	18.2%	-1.0%	-1.9%	-16.7%
Airport	47.2%	24.8%	41.3%	3.5%	-10.8%	-3.0%
Electric Utility	33.8%	18.0%	39.2%	-19.0%	-19.5%	-18.6%
Vehicle Towing	15.4%	11.2%	12.3%	8.8%	5.4%	1.1%
Daycare	16.9%	15.2%	7.8%	-7.4%	-20.2%	-10.4%
Child Welfare	30.8%	10.9%	28.2%	-4.5%	-2.4%	-10.3%
Transit Services	22.8%	19.4%	33.3%	-11.3%	-3.6%	-3.5%
Job Training	8.4%	9.1%	9.6%	-19.5%	-5.5%	-0.2%
Welfare Eligibility	50.5%	15.8%	33.3%	-9.5%	-19.4%	-18.3%
Hospitals	5.9%	1.8%	2.3%	-27.5%	-1.6%	-13.5%
Insect Control	46.7%	26.2%	42.8%	-6.8%	-8.5%	-13.5%
Drug Programs	8.5%	6.4%	6.8%	-3.8%	0.9%	-3.7%
Emergency Medical	55.6%	50.6%	40.2%	0.3%	-3.0%	-6.0%
Museums	21.8%	28.6%	17.4%	-3.2%	2.2%	-4.9%
Fleet Management	63.8%	51.4%	60.0%	11.3%	3.8%	4.4%
Inter-Governmental Contracting						
Res. Waste Collection	5.3%	3.1%	8.9%	2.5%	0.9%	1.9%
Comm. Waste Collection	5.6%	3.5%	7.0%	3.1%	0.1%	1.2%
Waste Disposal	23.4%	19.0%	22.1%	13.9%	-5.6%	6.9%
Hazardous Materials	27.9%	45.0%	30.8%	12.9%	2.4%	12.4%
Airport	22.8%	51.4%	31.2%	-3.4%	24.3%	6.2%
Electric Utility	16.2%	10.3%	15.2%	-3.3%	-2.2%	-3.6%
Vehicle Towing	2.2%	8.8%	3.7%	-2.5%	4.2%	2.8%
Daycare	15.3%	13.6%	11.7%	9.8%	1.3%	-1.9%
Child Welfare	32.7%	66.7%	48.4%	11.1%	15.6%	8.4%
Transit Services	39.0%	50.9%	21.9%	11.2%	6.6%	-6.2%
Job Training	42.0%	64.2%	68.4%	4.5%	9.0%	12.7%
Welfare Eligibility	38.1%	72.1%	58.7%	13.4%	22.1%	17.1%
Hospitals	21.6%	35.1%	33.0%	-22.9%	-21.6%	11.9%
Insect Control	29.6%	39.7%	29.7%	3.3%	1.1%	5.7%
Drug Programs	34.0%	56.7%	50.0%	5.4%	12.8%	5.2%
Emergency Medical	12.8%	17.0%	21.6%	1.0%	0.6%	5.0%
Museums	17.8%	20.0%	23.1%	9.1%	6.8%	8.3%
Fleet Management	1.3%	1.8%	1.7%	0.4%	0.4%	-0.7%
For-Profit Contracting						
Res. Waste Collection	29.0%	57.3%	39.3%	-4.6%	10.4%	10.0%
Comm. Waste Collection	39.2%	63.8%	52.7%	-2.1%	14.5%	18.9%
Waste Disposal	35.3%	51.9%	30.4%	-1.7%	8.0%	0.8%
Hazardous Materials	32.4%	29.1%	36.5%	-10.1%	-9.0%	2.5%

Table 1: Use of Alternative Service Delivery Forms by Metro Status

Service	% Use 2007			% Point Change 2002-2007		
	Metro	Suburb	Rural	Metro	Suburb	Rural
Airport	17.1%	14.7%	9.0%	-6.2%	-15.8%	-5.3%
Electric Utility	42.6%	56.7%	36.8%	26.0%	16.4%	19.6%
Vehicle Towing	57.1%	68.4%	65.4%	-22.3%	-13.1%	-9.3%
Daycare	39.0%	53.8%	64.9%	1.1%	13.8%	33.1%
Child Welfare	8.7%	10.9%	8.9%	-6.1%	-2.4%	4.6%
Transit Services	24.4%	17.7%	13.3%	-0.4%	-3.4%	-0.7%
Job Training	9.2%	7.4%	2.6%	-5.2%	-3.0%	-5.6%
Welfare Eligibility	1.0%	3.0%	0.8%	-1.3%	1.7%	-2.5%
Hospitals	35.3%	38.6%	43.2%	24.2%	8.6%	11.6%
Insect Control	14.8%	24.6%	19.3%	1.7%	3.5%	8.9%
Drug Programs	23.6%	17.0%	22.0%	1.1%	-1.7%	10.1%
Emergency Medical	16.1%	16.6%	18.3%	1.4%	3.9%	8.0%
Museums	3.0%	4.3%	4.1%	-0.8%	-0.4%	-0.8%
Fleet Management	23.6%	28.6%	22.3%	-15.3%	-11.2%	-8.4%

Source: International County and City Management Association, *Alternative Service Delivery Surveys, 2002, 2007*; Washington DC. Service average is the percentage based on number answering each question where the denominator varies with each service. This is consistent with ICMA's reporting method in the *Municipal Yearbook*.

tracting overall is now lower than intergovernmental contracting. These two contracting alternatives work best in different situations. Inter-governmental contracting works well when vertical integration in public management is needed, as between cities and counties. It also works to help gain economies of scale across jurisdictions in the same geographic area. We see this in the rise in transit services and in airports. Rural governments traditionally have had trouble attracting private vendors due to the high costs of serving a sparse population and the limited number of rural governmental clients to attract outside vendors. For rural governments, intergovernmental contracting has provided an important alternative to direct public delivery and to privatization. This was evident in the hospital data showing that intergovernmental cooperation only grew among rural governments.

In other human services such as job training, welfare eligibility determination and child welfare services, intergovernmental contracting grew for all types of governments. In hazardous materials we have also seen dramatic growth in intergovernmental contracting. This occurred at the expense of for-profit con-

tracting, except for rural areas, in which public delivery fell dramatically. The growth in inter-municipal cooperation in these areas helps explain the rise in inter-governmental contracting overall.

In three areas for-profit contracting dropped dramatically. The first is airports. Among suburbs, airport privatization has dropped off and inter-governmental contracting is now more common. This may reflect the need for more regional coordination around transportation systems. The second area is vehicle towing, where for-profit contracting has dropped but is still the most common form of delivery. The third area is fleet management. Here the shift has been from for-profit contracting to direct public delivery. The drops in vehicle towing and fleet management are a surprise because these are services that

are readily available in the private market. One possible explanation is situations whereby the government cannot readily see the quality of the contractor's work, or an increase in service prices sending governments back to use their own facilities. The ICMA survey asks why governments bring previously contracted work back in house and the primary reasons given are problems with service quality and lack of cost savings. All governments contract out and back in, but there is considerable variation explained primarily by differences in market structure and management factors.⁸

THE UNEVEN PROCESS OF INNOVATION, DIFFUSION AND MANAGERIAL LEARNING

Local governments in the United States are experienced contractors. They have contracted for service delivery for a long time. For-profit contracting has been relatively stable at around 18%. However, a breakdown by metro status shows more dynamic

Table 2: Factors Affecting the Contracting Decision, 2007

	% Reporting 2007			% Point Change 2002-2007		
	Metro	Suburb	Rural	Metro	Suburb	Rural
Opposition from citizens	14.5%	10.8%	10.0%	-0.9%	1.1%	-3.0%
Opposition from elected officials	21.4%	13.8%	14.3%	-3.3%	-2.1%	-1.7%
Opposition from line employees	30.2%	18.9%	10.7%	-5.9%	-2.5%	-4.5%
Opposition from heads	15.3%	10.6%	7.5%	-1.3%	-1.5%	0.2%
Restrictive labor contracts	22.9%	15.8%	9.8%	3.5%	2.0%	2.5%
Legal constraints	12.6%	5.4%	3.3%	2.5%	-0.9%	-3.1%
Insufficient supply of competent private deliverers	18.3%	10.5%	12.4%	1.7%	-1.1%	-0.4%
Monitoring Overall	57.9%	51.5%	32.6%	-5.2%	3.2%	-2.8%
Citizen satisfaction	28.6%	31.1%	16.1%	-9.8%	-2.8%	-7.1%
Cost	46.6%	40.2%	26.4%	-7.7%	0.0%	-2.6%
Delivery standards	48.9%	39.0%	20.8%	-4.6%	-1.2%	-2.8%

Source: International County and City Management Association, *Alternative Service Delivery Surveys, 2002, 2007*; Washington DC. Percentages based on place average using standard denominator for all questions, N=1474.

movement in the use of for-profit contracting. While suburban trends have been relatively stable, metro use of contracting dropped from 2002 to 2007 and rural use, which dropped in 2002, had risen again by 2007. The rural catch up in 2007 is most dramatic in waste, utilities and hospitals. The metro decline is most dramatic in vehicle towing and fleet management. Metro governments may have their own internal economies of scale in these services that make outsourcing unnecessary.

Intergovernmental contracting is an important alternative to for-profit contracting. It shows more consistent trends across metro status—dropping for all governments from 1992-2002 and rising for all from 2002 to 2007. The largest rises are in services where regional coordination is needed (waste disposal, hazardous waste, transit, airports, child welfare and museums). For rural areas, intergovernmental contracting provides an alternative where private markets are not present.

These shifts in the levels of contracting also reflect a managerial learning process. Although rural areas are less likely to have professional managers, their use of contracting is catching up to that of metro areas. The 2007 oversample picked up more rural govern-

ments without professional management (48 percent of the rural governments had council/managers in 2007 compared to 73 percent of the rural sample in 2002). In the metro sub-sample, by contrast, the level of professional management was up (66% in 2007 vs 50% in 2002) but the level of for-profit contracting was down. The services with the biggest drops in contracting for metro areas were vehicle towing, waste disposal and fleet management—services that would seem to be likely candidates for privatization. These drops could be explained by problems with contract management, lack of competition, lack of cost savings or labor management concerns.

The decision to contract is less a political one than a managerial one. Among all governments, regardless of metro status, opposition to private delivery from citizens, line employees, department heads and elected officials is down slightly. However, labor agreements and legal constraints are cited as reasons not to contract out by more governments in 2007 than 2002 and the rates are highest for metro governments. These technical constraints could reflect the formalization of opposition. Metro and rural governments are also more likely to acknowledge a lack of competitive supply of alternate deliverers. A separate survey by ICMA in 2007 showed rural areas faced half the level of competition of metro and suburban governments—rural governments faced on average 0.5 alternate suppliers for each service as compared to 1 supplier in metro and suburban markets.⁹ This may explain the rural preference for intergovernmental contracting.

The process of managerial learning is uneven. Experimentation with contracting often precedes knowledge about how to contract or recognition of the need to monitor. Although we see a rise in privatization among suburbs and rural municipalities in 2007, the overall level of monitoring is low and declining.



Metro and suburban governments have the highest levels of professional management and are more likely to monitor their contracts. Over the years ICMA surveys show that growth in monitoring lags behind growth in contracting. Contracting without monitoring is less likely to be successful and this failure to monitor explains many of the reversals we see in contracting in the U.S. Managerial learning involves both learning how to contract and learning how to monitor.

Contracts are not self-regulating and local government service markets are not sufficiently competitive to ensure high quality and low cost without monitoring. The current rise in contracting may fall again by the 2012 survey if some effort is not made to ensure governments, especially the rural ones, institute effective contract management and monitoring systems.

ABOUT THE AUTHORS

Mildred Warner is Professor of City and Regional Planning at Cornell University. **Amir Hefetz** teaches at the Technion in Haifa, Israel. Warner and Hefetz have published extensively on local government privatization in the U.S. and internationally. The International City County Management Association has selected them to assist with analysis of its quinquennial Alternative Service Delivery surveys.

ENDNOTES

1. The ICMA survey is the only comprehensive nationwide survey of privatization. On average ICMA measures service delivery for 67 local services across 1000-1500 municipalities nationwide. The survey also asks about factors that affect managers' decisions regarding service delivery characteristics. The 2007 ICMA survey was sponsored by Reason Foundation. A detailed description of the by service trends for 1992-2002 is found in M. E. Warner and Amir Hefetz's "Pragmatism over Politics: Alternative Service Delivery in Local Government, 1992-2002," pp 8-16 in *The Municipal Year Book 2004*, (Washington, DC: International City County Management Association). The 2007 data are reported in M. E. Warner and Amir Hefetz's "Cooperative Competition: Alternative Service Delivery Trends, 2002-2007," in *The Municipal Year Book 2009*.
2. ICMA reports data on a 'by service' average in its publications. It does not use a standard denominator, but rather a unique denominator for each question based on the number reporting answers to that question. In this analysis we present place averages and use a standard denominator (number of places) across all services in Figure 1 and across all factors in Table 2. Thus our numbers represent a 'by place' average. The trends are similar to ICMA reports but the actual levels are slightly different when controlling by place rather than by service. Table 1 is based on provision levels which do vary for each service. Thus, our table uses the number reporting as the denominator for each service and is consistent with ICMA reports except it provides the metro status breakdown for each service.
3. The survey instrument was similar to that used in previous years except two questions regarding motivators and obstacles for inter-governmental contracting were added. In addition, ICMA over-sampled rural places in the 2007 survey. While this made no difference in the overall trends, it

does permit a closer analysis of differences by metro status.

4. Detailed analysis of differences in privatization by metro status can be found in M. E. Warner's "Market-Based Governance and the Challenge for Rural Governments: U.S. Trends" in *Social Policy and Administration: An International Journal of Policy and Research* 40(6):612-631, 2006, as well as Warner and Hefetz's "Rural-Urban Differences in Privatization: Limits to the Competitive State," *Environment and Planning C: Government and Policy*, 21(5): 703-718, 2003, and "The Uneven Distribution of Market Solutions for Public Goods," *Journal of Urban Affairs*, 24(4): 445-459, 2002.
5. For complete detail on all alternatives measured in the ICMA survey see Warner and Hefetz, "Cooperative Competition: Alternative Service Delivery 2002-2007," *ICMA Municipal Yearbook 2009*. A special analysis looking at managerial learning and mixed public-private delivery is Warner and Hefetz's "Managing Markets for Public Service: The Role of Mixed Public/Private Delivery of City Services," *Public Administration Review*, 68(1):150-161, 2008.
6. *ICMA Municipal Yearbook 2009* presents averages across services. In this paper we present averages across place because we are interested in showing differences by metro status. ICMA uses a different 'number reporting' for each service, so by service averages are not the same as by place averages, which have a constant denominator.
7. This may be due to problems with cost savings. A recent meta analysis of all studies of private delivery in waste collection found cost savings were less common in the more recent studies suggesting that efficiency gains erode over time. G. Bel and M.E. Warner "Does privatization of solid waste and water services reduce costs? A review of empirical studies," *Resources, Conservation & Recycling*, 2008, forthcoming.
8. For more detailed analysis on the dynamics of contracting and the reasons that motivate them

see: Hefetz and Warner, "Beyond the Market vs. Planning Dichotomy: Understanding Privatisation and its Reverse in U.S. Cities," *Local Government Studies*, 33(4): 555-572, 2007; Hefetz and Warner "Privatization and Its Reverse: Explaining the Dynamics of the Government Contracting Process" *Journal of Public Administration, Research and Theory*, 14(2):171-190, 2004; and Warner, with M. Ballard and A. Hefetz "Contracting Back In—When Privatization Fails," chapter 4, pp 30-36 in *The Municipal Year Book 2003* (Washington, DC: International City County Management Association).

9. Results of this survey are described in more detail in M. E. Warner's "Civic Government or Market-Based Governance? The Limits of Privatization for Rural Local Governments," *Agriculture and Human Values* (1), 2009.



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