Privatization & Intergovernmental Agreements

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Overview

- Late 20th century experiment to expand role of markets in local government service delivery
- Privatization experience uneven – Efficiency? Voice? Equity?
- Reversals appear in the late 1990s
- Not a return to old state delivery, instead
- A shift to a new mixed position – markets and public delivery, inter-governmental cooperation
- Rebalancing Governmental Reform
US Large Scale Longitudinal Data


  - Scope:
    - 64 specific services
    - 6 service delivery options (entirely public, mixed public/private, for profit, non profit, inter-municipal cooperation, franchises
    - Factors motivating restructuring (approx 75)

  - Sample Frame:
    - All cities over 10,000, All counties over 25,000.
US Privatization Peaked in 1997

Why are the Trends Flat?

- Some governments do a lot; many do little (6 of 35 services on average)
- Government has always used private providers
  - Privatization - new name for longstanding practice
- Government service provision is dynamic
  - New services, service shedding, contracting out and contracting back-in
- Government managers use a variety of mechanisms to secure public service delivery
  - Internal Reform (direct public delivery) – common and stable
  - Mixed Public and Private Delivery – dynamic
  - Inter-municipal Cooperation – to gain scale
  - Contracting out and back-in (reversals) – dynamic
Reversals

- United States – pro-market orientation but privatization never compulsory
- Contracting Out Peaks in 1997
- Increased use of inter-governmental contracting in 2007
  - Public alternative to privatization
  - Achieves economies of scale
  - Keeps the service public
- Internal Process Improvement in Government Delivery
The Pendulum Swings…

Towards Private

Private Delivery 35% Stable
New Contracts 11%
Reversals 12%

Towards Public
Public Delivery 42% Stable
Similar to Private Sector Concerns

“Outsourcing is an extraordinarily complex process, and the anticipated benefits often fail to materialize” (Deloitte, 2005. Calling a Change in the Outsourcing Market)

Loss of internal knowledge and control

Cost savings uncertain – not cheaper, better or faster

Risks cannot be mitigated

Complex deals – take a lot of management time

Public sector has broader concerns- equity, democracy, transparency, long term sustainability
What Happened to Cost Savings?

- Meta analysis of econometric studies 1965-2010 from around the world
  - Lack of competition
  - Natural monopoly characteristics of the service
  - Erosion in cost savings over time

<table>
<thead>
<tr>
<th></th>
<th>Private Cheaper</th>
<th>Public Cheaper</th>
<th>No difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water</td>
<td>3</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>Waste</td>
<td>6</td>
<td>1</td>
<td>14</td>
</tr>
</tbody>
</table>

What about Competition?

- 2007 Survey of City Managers
- Asked about number of alternative providers (other than government) for each of 67 services
- On average, across all services, competition is less than two alternative providers
  - Metro Core Cities - 1.8 alt. providers
  - Suburbs – 1.8 alt. providers
  - Rural – 1.1 alt. providers
- Be aware of substituting a private monopoly for a public monopoly
Markets for Public Services Are Uncompetitive

Competition

Child Care >3
Vehicle Towing > 3
Waste Collection < 3
Vehicle Maintenance 2
Street Repair < 3

Utilities 1.5
Transit 1.3
Waste Disposal 1.3

Monopoly

Police < .5
Fire < .5
Sewer < .7
Water 1

Low Competition
Importance of Managing Markets

- Mixed public/private delivery
  - To Promote Competition
    - Competitive bidding, splitting markets, combining markets
  - To Benchmark Costs
    - Stay in the game to know costs, processes
  - To Maintain Government Capacity
    - equipment, staff and knowledge
  - To Ensure Fail Safe Delivery
  - To Maintain Citizen Voice
    - and involvement in service delivery process
Importance of Mixed Delivery
Dynamic Process of Innovation and Reform

What Drives Local Privatization?

- Desire to reduce costs
- Economies of Scale
- Fiscal Stress
- Political Interests
- NOT political ideology
Critical Elements in Contracting

- Competition – Concentration, tend toward monopoly – split districts, competitive bidding
- Maintain critical assets - equipment, infrastructure, personnel
- Monitoring – specify goals, measure them, and build incentives to ensure compliance
- Recognize market structure of each service and each place
- Consider all costs – overhead, borrowing costs, staff redeployment, profits, taxes
What Have We Learned?

- Privatization - cost savings ephemeral at best
- Markets need management to ensure competition
- Contracting requires special skills – budget analysis, contract design, monitoring
- Process improvements are possible
  - Privatization is one strategy in a mix of alternatives
  - Inter-municipal contracting and mixed delivery are equally important
  - Internal Process Improvement – still the most common and least risky approach
Inter-Municipal Cooperation – A Better Alternative?

- Inter-municipal cooperation is the second most common form of local government restructuring in the United States. Now equals privatization.

- Increased academic attention is being given to the potential of such cooperation
  - To gain scale economies and market power
  - Keep the service public
  - Address problems of political fragmentation
  - To promote service integration – across agencies
US Inter-Municipal Coop Rises in 2007

Delivery Modes All Years

Average provision as % of total provision

## Cooperation and Privatization – by Service Area

<table>
<thead>
<tr>
<th>Service Area</th>
<th>Cooperation</th>
<th>Privatization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Across All Services and Places</td>
<td>16%</td>
<td>17%</td>
</tr>
<tr>
<td>Public Works (20)</td>
<td>15%</td>
<td>22%</td>
</tr>
<tr>
<td>Public Utilities (4)</td>
<td>8%</td>
<td>28%</td>
</tr>
<tr>
<td>Health and Human Services (15)</td>
<td>38%</td>
<td>13%</td>
</tr>
<tr>
<td>Parks and Recreation (3)</td>
<td>8%</td>
<td>12%</td>
</tr>
<tr>
<td>Support Functions (15)</td>
<td>9%</td>
<td>17%</td>
</tr>
<tr>
<td>Culture and Art (3)</td>
<td>24%</td>
<td>4%</td>
</tr>
<tr>
<td>Public Safety (7)</td>
<td>14%</td>
<td>10%</td>
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ICMA 2007
## Cooperation: Motivators and Obstacles

<table>
<thead>
<tr>
<th>Motivators</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Cost savings</td>
<td>64.8%</td>
</tr>
<tr>
<td>Scale economies</td>
<td>63.0%</td>
</tr>
<tr>
<td>Strenthen regional relations</td>
<td>51.5%</td>
</tr>
<tr>
<td>Regional integration</td>
<td>48.5%</td>
</tr>
<tr>
<td>Technical expertise</td>
<td>30.0%</td>
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<table>
<thead>
<tr>
<th>Obstacles</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Loss of control</td>
<td>31.4%</td>
</tr>
<tr>
<td>Employee opposition</td>
<td>20.9%</td>
</tr>
<tr>
<td>Difficult to monitor</td>
<td>15.9%</td>
</tr>
<tr>
<td>Citizen opposition</td>
<td>8.8%</td>
</tr>
<tr>
<td>Lack of neighbors willing to cooperate</td>
<td>8.0%</td>
</tr>
</tbody>
</table>
Inter-municipal Cooperation: An Approach to Regional Coordination?

- Fragmented metropolitan areas in the US make regional integration of service delivery difficult.
  - Local government boundaries do not coincide with the economic boundaries of the metro area.
  - Political fragmentation leads to inequity
    - High need inner city
    - Low need but higher tax base suburbs.
- Planners’ ideal solution - regionalism
  - Political consolidation politically unpopular.
  - Representative regional government is rare.
  - Inter-municipal cooperation is common.
US Evidence: Metropolitan Differences

- Suburbs have wider range of choice - use both inter-municipal cooperation and privatization more than rural or metro places.
- Core metro communities rely less on cooperation - have internal economies of scale. Privatization catches up to suburb level by 2002.
- Rural places tried cooperation and privatization both are rising in 2007.
US Evidence

- Levels of privatization and cooperation dropped 1997-2002
  - Explained by problems with efficiency, accountability and citizen satisfaction
- Coop rising again in 2007
  - Monitoring lags increases in contracting
  - May lead to accountability problems and reversals in the future
Understanding Government Reform

- Limits to Market Approaches
- Critical Role of the State
  - In constructing the social and legal foundations for markets to function
  - In acting as a market player
  - In creating spaces for democracy and community building
  - In technical planning, and building a long term view
- Challenge – Finding the right balance
Challenge – Finding the Balance

Balanced Approach to Governmental Reform

Markets
Competition, Management & Consumer Choice

Democracy
Public Accountability, Citizen Engagement

Planning
Technical Management and Process Improvement