

Local Public Services in Wisconsin: Alternatives for Municipalities

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Fact Sheet #4: Factors Influencing the Decision to Privatize Services and Factors Contributing to Success

There are five fact sheets in the series
Local Public Services in Wisconsin: Alternatives for Municipalities

I. Overview

II. Comparison of Service Production Methods and Incidence of Privatization

--*Public Works and Transportation; Public Utilities; Parks and Recreation; and Cultural and Arts Programs*

III. Comparison of Service Production Methods and Incidence of Privatization

--*Public Safety, Health and Human Services, and Support Functions*

IV. Factors Influencing the Decision to Privatize and Factors Contributing to Success

V. Administering/Bidding Contracts and Monitoring Contractor Performance

A total of 452 cities and villages in Wisconsin were surveyed on the extent to which local public services are produced by municipal employees, have been privatized (contracted out to private firms) or are produced by some other method. Municipalities responded with information about 82 services in seven categories. This fourth fact sheet in the series reports the results of municipal responses to questions on the reasons that influenced the decision whether to privatize certain services, methods for implementing and promoting privatization, and factors that affected the success of the decision.

Factors Influencing the Privatization Decision

The reasons why municipal governments decide to contract out services previously produced by public employees are worth close examination. This aspect was explored through a series of questions. An initial general question elicited the response from 65 percent of the municipalities that the decision to privatize was made in response to “a general review of municipal services,” with an additional 6 percent stating that the reason was “a budget crisis or perceived emergency.” Additional questions asked respondents

to select (1) the three most important reasons for the decision to privatize (or not to privatize); (2) the preferred means of implementing privatizations and of promoting it to the residents; and (3) the factors that made privatization successful. Each of the sets of responses is considered in turn.

Reasons for Privatizing

The most frequently mentioned reason for privatizing services (cited by 70 percent of municipalities as either their first, second, or thirds most important reason) was “internal pressure to increase costs.” Nearly 40 percent

mentioned this as the most important reason for privatizing, with an additional 30 percent giving that response as the second or third most important reason (Figure 1). Three additional responses had a combined response total of approximately 45 percent of responding municipalities: (1) “successful use in other jurisdictions”; (2) “external pressure on finances, including tax restrictions”; (3) “concerns about municipal liabilities.” Intergovernmental mandates were cited by 30 percent of municipalities. Fifteen percent gave that as their most important reason and an additional fifteen percent stated it as their second or third most important reason.

Methods for Implementing Privatization

Once municipal officials make the decision to privatize or to consider privatizing specific services, they are faced with the task of selling the idea to a possibly skeptical citizenry. The survey sought responses as to preferred methods for implementing the privatization and promoting it to residents. “Analyzed feasibility” was the most important method of 28 percent of municipalities, and was cited by an additional 36 percent as the second or third most important implementation method, totaling 64 percent (Figure 2). Two other methods were cited by between 40 percent and 50 percent of municipalities as one of their top three methods: (1) “Identifying successful uses in other jurisdictions” was the first choice for 13 percent, and was the second or third choice for an additional 37 percent, for a total of 50 percent. (2) “Promoting the general features of privatization” was the most preferred method for 18 percent, and was the second or third choice for an additional 25 percent, for a total of 43 percent. Two additional methods were mentioned by nearly thirty percent of the

municipalities: (1) “using privatization only for new or growing services,” and (2) “implementing privatization on a trial basis.”

Factors Contributing to Success

Approximately 69 percent of municipalities that privatized services characterized the experience as “a success in most cases,” and thirteen percent as “a success in a few cases.” Only one characterized it as “a failure in most cases.” The factors that made privatization initiatives successful are presented in Figure 3. “Financial considerations” and “quality of work” top the list -- 40 and 36 percent of the municipalities, respectively, cited those factors as most important, and 75 percent mentioned them as one of the three most important reasons for success. Approximately 40 percent of municipalities mentioned “responsiveness” and “timeliness” of the privatized services as either first, second, or third most important reason.

Privatizing New or Existing Services?

Are Wisconsin municipalities that consider implementing privatization more inclined to do so for *existing* or *new* services? Figure 4 shows that 49 percent sought private contracts for service production for existing services only, but nearly as many (46%) had contracts for both new *and* existing municipal services. Five percent mentioned new services only.

Reasons for Not Privatizing

It is also instructive to examine reasons why certain municipalities have *not* privatized services. Nearly fifty percent noted “lack of evidence on effectiveness of privatization” as a first, second, or third reason, with 21 percent citing it as the most important reason

(Figure 5). The next three most frequently cited reasons were (1) “loss of control” (43 percent), (2) “insufficient supply of competent private deliverers” (37 percent), and (3) “opposition from elected officials”(32 percent).

As one examines nationwide trends in privatization, it is evident that unions generally oppose privatization.

Union-related reasons also surfaced in this study as an explanatory factor for not seeking the privatization alternative. “Restrictive labor contracts and agreements” and “opposition from unions” were cited by 24 percent and 23 percent of municipalities, respectively (Figure 5).

Figure 1. Factors Causing Cities/Villages to Consider Privatization During the Past Five Years

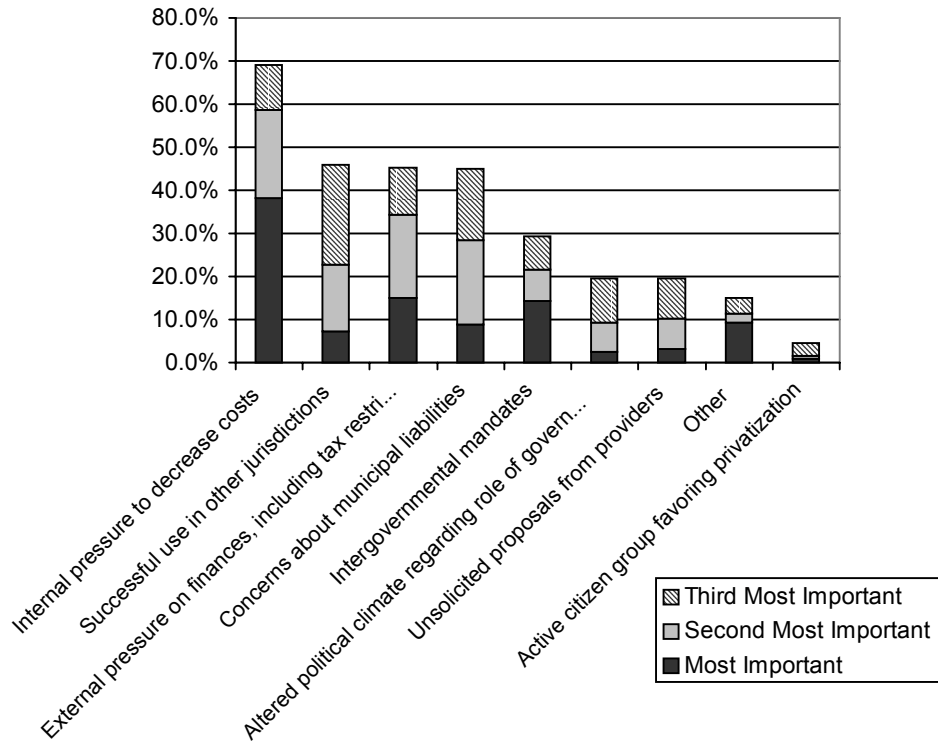


Figure 2. Methods for Implementing/Promoting Privatization

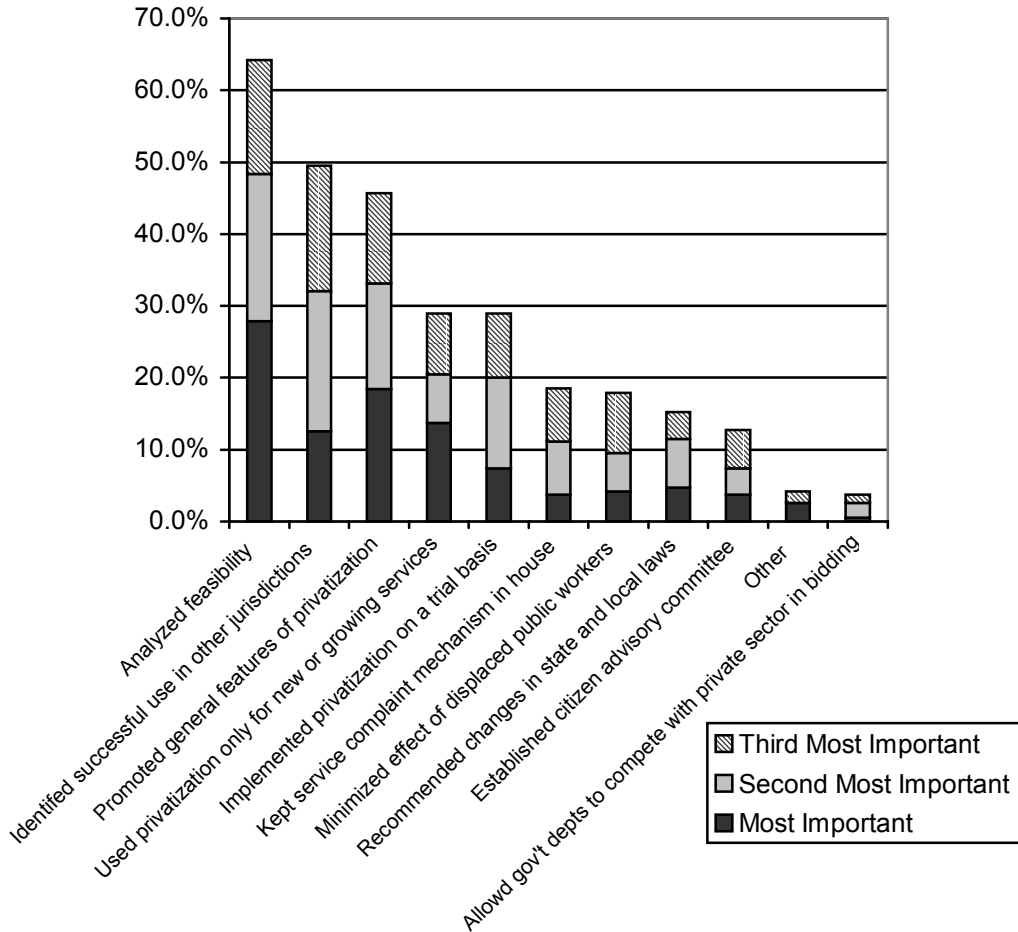


Figure 3 Factors Contributing to Success in Privatizing Services

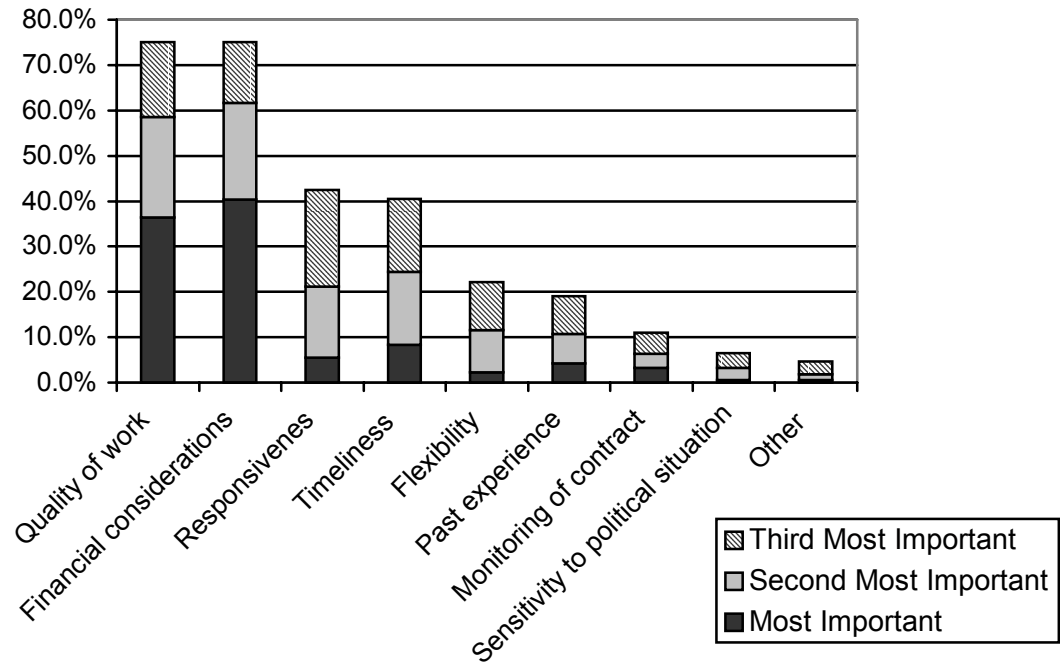


Figure 4. Have Contracts for Municipal Services Been for *New* or *Existing* Services?

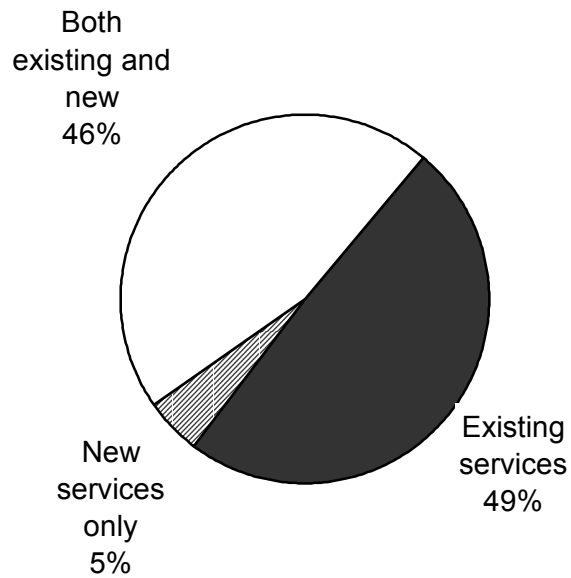


Figure 5. Reasons Why Municipalities Have Not Privatized Services

