

Local Public Services in Wisconsin: Alternatives for Municipalities

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Fact Sheet #2: Comparison of Service Production Methods and the Incidence of Privatization

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

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 fact sheet reports the results for four categories: Public Works and Transportation, Public Utilities, Parks and Recreation, and Cultural and Arts Programs.

Public Works

The services that appear to be the most suitable for privatization are in the areas of public works and public utilities. Refuse collection and disposal, recycling, road construction, and electricity, gas and water distribution systems involve relatively heavy capital investments and specialization of services. Significant economies of scale and managerial efficiencies are possible if several local governments purchase services

from one provider. In addition, because of the ease of monitoring and measuring the quantity and quality of the service produced (e.g., volume of refuse collected, quality of road surfaces, uninterrupted services), contracts are easier to design and enforce.

Public Works -- Solid Waste

Solid waste collection and disposal is one service that is commonly offered through arrangements with private

companies. In addition to the reasons cited above, a primary reason for the popularity of privatizing solid waste collection and disposal rests in the stringent federal environmental regulations concerning landfills under Subtitle “D.” The guidelines outlined under Subtitle “D” significantly increase the costs associated with the construction, operating, closure, and post-closure monitoring of landfills. The economics dictated by Subtitle “D” necessitate the closure of many local landfills and the movement to regional landfills. Municipalities are now forced to rethink how to dispose of solid waste generated within their jurisdiction.

Another important factor underlying the prevalence of contracting with private firms for the collection and disposal of solid waste is that the number of firms providing this service is sufficiently large. When a municipality considers privatizing solid waste collection and disposal, there are generally a number of private firms willing and capable of submitting competitive bids. In some areas, however, waste industry consolidation into a small number of large firms may result in less competition and fewer vendors.

In Wisconsin, 71 percent of responding cities and villages reported that they have privatized residential solid waste collection while 22 percent have elected to retain the traditional means of having public employees collect residential waste (Figure 1). Commercial solid waste collection through contracts with private for-profit companies is slightly higher at 79 percent. Only 10 percent of Wisconsin’s municipalities continue to have government employees solely responsible for commercial waste collection. Similar patterns of privatization for solid waste disposal (72 percent) and recycling (68 percent) were reported by Wisconsin cities and villages. Supplying waste-related

services through intergovernmental arrangements is also evident, with 13 percent of municipalities indicating such arrangements for solid waste disposal, and 11 percent for recycling. (Figure 9)

Yard waste collection, however, appears to remain in the domain of public employees in Wisconsin. Only 18 percent of cities and villages reported that yard waste is collected by private firms, while 57 percent reported that government employees remain responsible. This result may be due in part to the infrequency of yard waste collection relative to residential and commercial refuse collection. Also, due to the growing practice by municipalities of composting yard waste, this type of refuse may not traditionally enter the normal waste stream.

Public Works – Streets

Beyond refuse collection and disposal, the tendency to turn to private for-profit businesses to deliver other public work and transportation services diminishes rapidly. For many local governments in Wisconsin, the maintenance of the local road system is often the single largest expenditure category.

Given the importance of the local road system to both the economic and social well-being of local residents, as well as its significance to the municipal budget, it is somewhat surprising to find that only a small handful of Wisconsin cities and villages (less than 1%) have privatized street repair and maintenance (Figure 2). Yet, less than half of the responding municipalities have elected to retain the traditional streets department with government employees solely responsible for road maintenance. A variety of other methods are used to produce the service.

A common municipal practice in Wisconsin is contracting with county

highway departments for certain types of repairs and maintenance. The rationale is that the county highway department is often large enough to have trained engineers on staff along with specialized equipment that is often beyond the financial resources of smaller municipalities. These agreements can take many forms, ranging from complete contracting (i.e., an alternative form of service production with the county government as the contractor) to cooperative projects where city/village road crews work with county personnel.

Some Wisconsin municipalities have elected to privatize certain aspects of road maintenance. The City of Shawano has elected to contract snow plowing and removal from city streets with a local private vendor. City officials claim that costs have been kept under control, improved the quality of the service delivered and allowed city employees to focus on other aspects of the city road system.

Other street-related functions that have been privatized to an extent worth noting are: (1) street sweeping (17 percent) (2) traffic signal installation and maintenance (14 percent), the (3) cleaning of streets and parking lots (11 percent). (Figure 2)

Among public works functions, traffic signal installation had the highest incidence of the service being supplied by another unit of government, 24 percent of municipalities (Figure 9).

Intergovernmental arrangements were indicated by 6 to 8 percent of municipalities for street sweeping, snowplowing/sanding, and street repair and maintenance (Figure 9).

Other Transportation Functions

Other transportation functions which exhibit a significant incidence of privatization include para-transit system

operation and maintenance (49%), bus-system operation and maintenance (24%), and airport operation (14%). (Figure 3). Note, however, that the number of respondents was between 34 and 52 for these types of services. Generally only larger cities tend to provide these types of services and most do not produce the service with municipal employees. The only transportation-related function in which a large proportion of the responding municipalities continue to use municipal employees is parking lot garage operations – 85% of the 65 respondents (Figure 3).

Other Public Works Functions

Other responsibilities of public works departments have also been privatized on selective bases. A number of cities and villages (19 percent) have contracted with local nurseries for planting and trimming trees on municipal properties (Figure 4). Some officials point out that it is often more effective to allow the vendor who supplies the trees to plant and maintain them, not only for the cost savings, but also for the specialized expertise that the vendor possesses. Contracting appears to be a viable option for many of these smaller, more specialized services, where vendors may possess a comparative advantage in terms of expertise or unique types of equipment. Cost savings may not be dramatic, but improved services may justify the review of current delivery methods, especially as municipal governments gain more experience with contracting.

Public Utilities

As might be expected, private companies supply a majority of the public utility services, with the exception of water and wastewater. For instance, 68 percent of cities and villages reported that electricity is

provided by a private company and 86 percent of municipalities' gas services are provided by private vendors (Figure 5). Sludge disposal and hazardous materials disposal are contracted with private vendors in 26 and 30 percent, respectively, of responding municipalities (Figure 6). Only 11 percent of cities and villages reported that hazardous waste is the sole responsibility of government employees. For many of Wisconsin cities and villages (47 percent), the collection and disposal of hazardous waste is carried out by other units of government (Figure 10). The incidence of intergovernmental arrangements for producing other utility-related services is much lower, however. Such arrangements for sludge disposal and sewage treatment were noted by 14 percent and 12 percent of municipalities, and all other services had response levels of 10 percent or less. (Figure 10)

For cities and villages with city streetlights, 55 percent reported that the maintenance and operation of lights were contracted with private companies (Figure 6). Because of the nature of this particular service, the local electric utility often has the technical expertise and specialized equipment to better maintain and repair streetlights. Contract monitoring for these types of services is relatively straightforward, hence more conducive to privatization.

In contrast to the high degree of privatization of the utility-delivered services discussed above, water treatment and distribution, along with wastewater (sewage) collection and treatment, remain predominantly the responsibility of municipal employees. Approximately nine in ten responding cities and villages continue to reserve these responsibilities, with only one to two percent indicating that these services are delivered by private for-profit firms (Figure 5). The predominant

reason for this pattern rests in the nature of service provided and the funding method. Water treatment facilities and water distribution lines, along with wastewater treatment plants and sewer lines, have historically been put into place with public dollars, hence are owned by the municipality. Electricity and gas lines have been predominantly financed with private funds.

In addition, as environmental regulations dictate either significant upgrading of existing facilities, or investments in new facilities, the targeted federal and state aid programs that help offset local costs are administered by municipalities or special districts. This financial arrangement makes it conducive to retaining the local government's direct involvement in daily operations.

Today, however, privatization of water and wastewater treatment is increasingly common. Several reasons explain this trend. First, the costs of putting these systems in place and maintaining them is rapidly becoming one of the largest single capital expense items for municipalities. As such, cities and villages are exploring alternative ways to reduce the costs of operation and maintenance. Second, a large number of these systems have been in place for over 20 years and are in need of significant upgrading to meet new demands from municipal growth and new environmental regulations, or are approaching the end of their engineered-design lives. As municipalities are faced with significant new reinvestments, coupled with decreasing federal aid programs, a growing number are exploring privatization of the service as an option. Third, because of the dollars invested in these facilities, and increases in the need for the services that these facilities produce, private engineering vendors see a potential source of business expansion and are devoting more resources

to providing those services. In short, the potential number of firms able to bid on privatization proposals is growing. Finally, because of strict and well defined environmental regulations outlined in the Safe Drinking Water Act and the Clean Water Act, the monitoring of contracts by municipalities can be relatively straightforward and cost effective. For many smaller systems, however, the volume of drinking water or wastewater treated may be below the threshold which businesses view as profitable. Customers in such communities may be unwilling or unable to pay the rates required to make the systems attractive to potential vendors. In these cases, continued public ownership and subsidization may be necessary.

Parks and Recreation Services

Parks and recreation services are not generally viewed as areas where private firms are likely to have many profit-making contracting opportunities. Figure 7 shows that over 80 percent of municipalities undertake park landscaping and management, and operation/maintenance of recreational facilities, with public employees. Recreational services are offered through public employees in nearly 70 percent of municipalities. Convention center/ auditorium operations are operated with municipal employees in 55 percent of the 43 municipalities that offer such services, while 26 percent make arrangements with other units of

government, and 7 percent use private for-profit firms.

Cultural and Arts Programs

Although many people enjoy and appreciate cultural and arts programs, there may not be a willingness to pay entrance fees to events at anything close to what would make such events significant profit-making opportunities. Thus, cultural/arts programs are frequently run by non-profit organizations, or other units of government and a predictably low number of municipalities offer these services either through for-profit firms (11 percent) or by municipal employees (8 percent; Figure 8). Fifty-five percent of 64 responding municipalities report operation of cultural and arts programs through other units of government.

Only 20 percent of municipalities operate museums with public employees (Figure 8), but 32 percent of 102 responding municipalities indicate service production by other units of government. In contrast, library operations remain a municipal employee function for approximately 74 percent of cities or villages, with 17 percent indicating intergovernmental arrangements for library services.

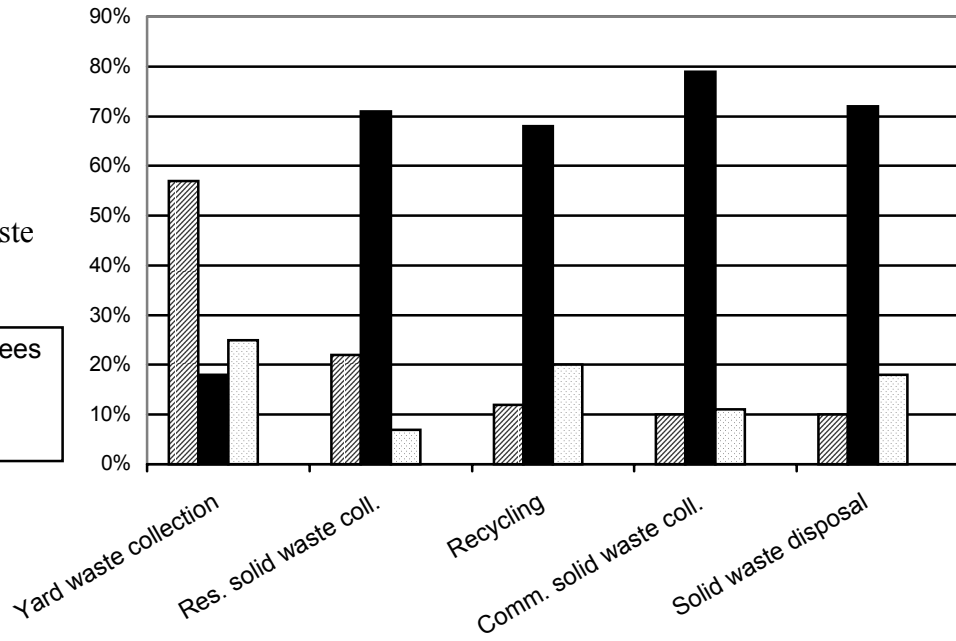
Analysis of three additional categories of local public services continues in Fact Sheet #3 in this series – Public Safety, Health and Human Services, and Support Functions.

Number of respondents =

350 409 421 365 391

Figure 1
Public Works
Municipal Solid Waste

▨ Municipal Employees
■ Private for Profit
□ Other Methods

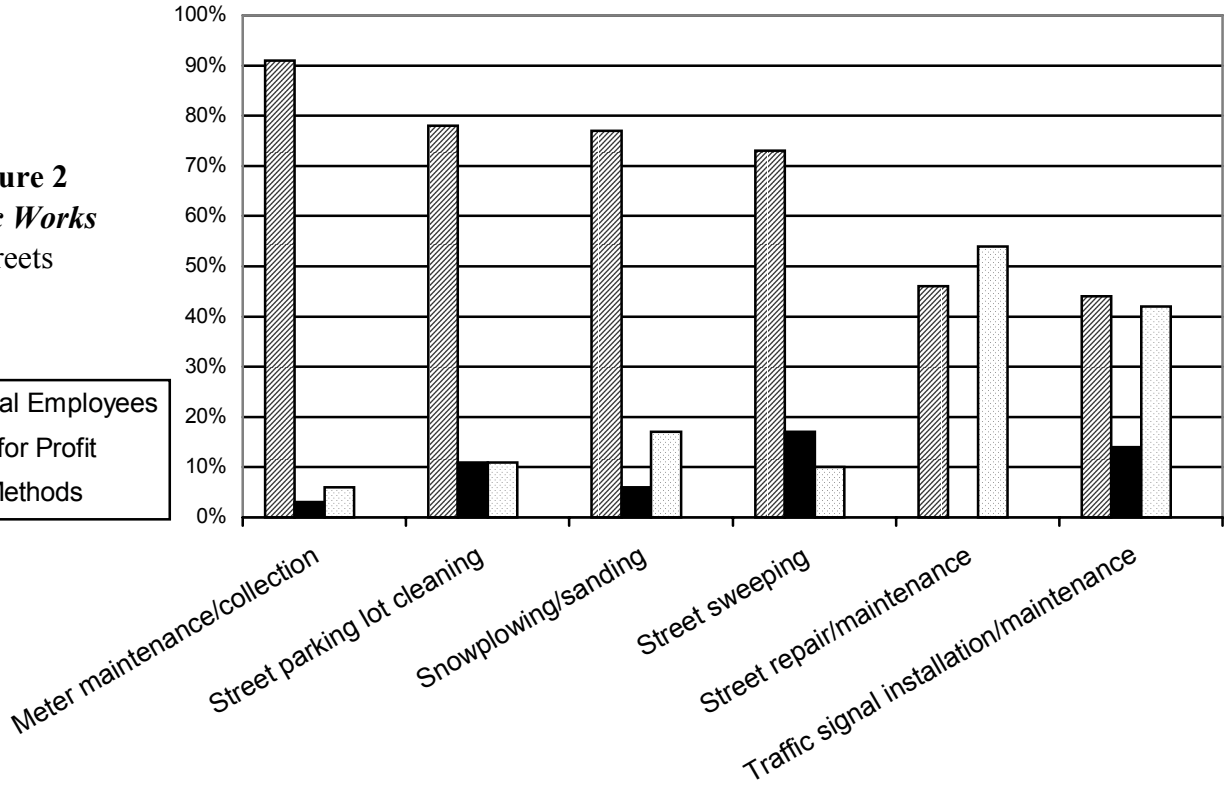


Number of respondents =

158 364 433 395 413 258

Figure 2
Public Works
Streets

▨ Municipal Employees
■ Private for Profit
□ Other Methods

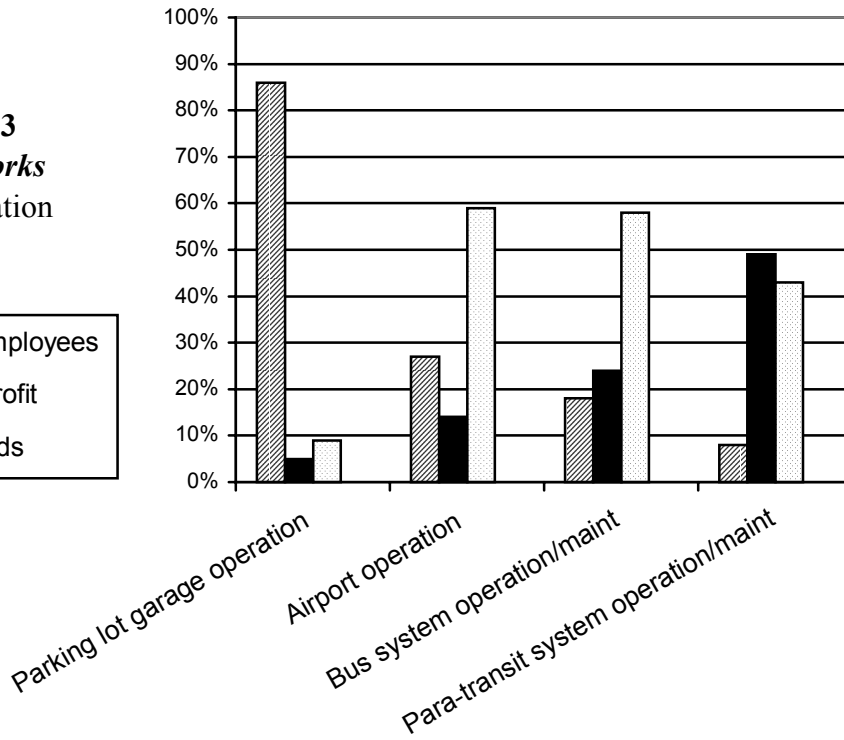


Number of respondents =

65 52 34 39

Figure 3
Public Works
Transportation

▨ Municipal Employees
■ Private for Profit
□ Other Methods

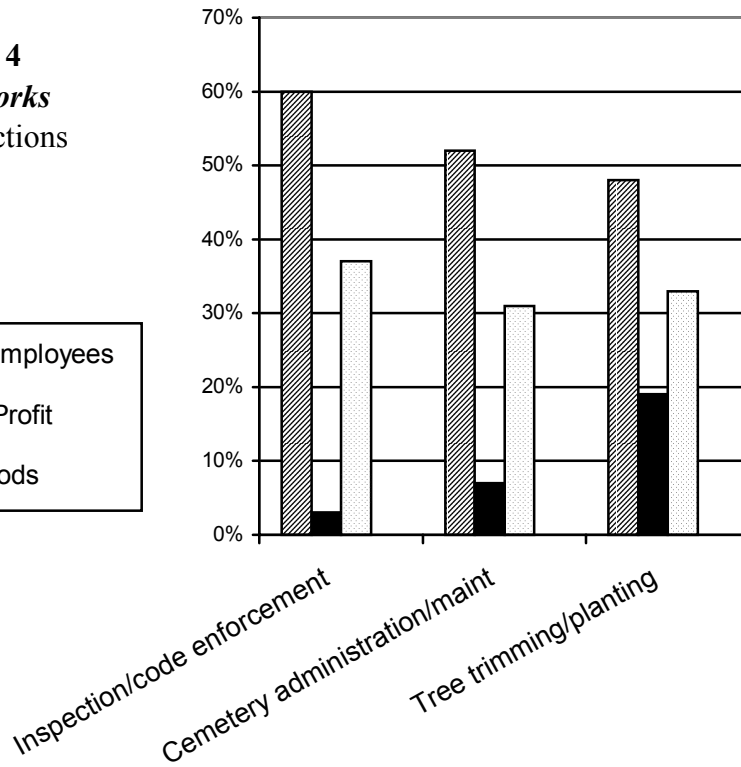


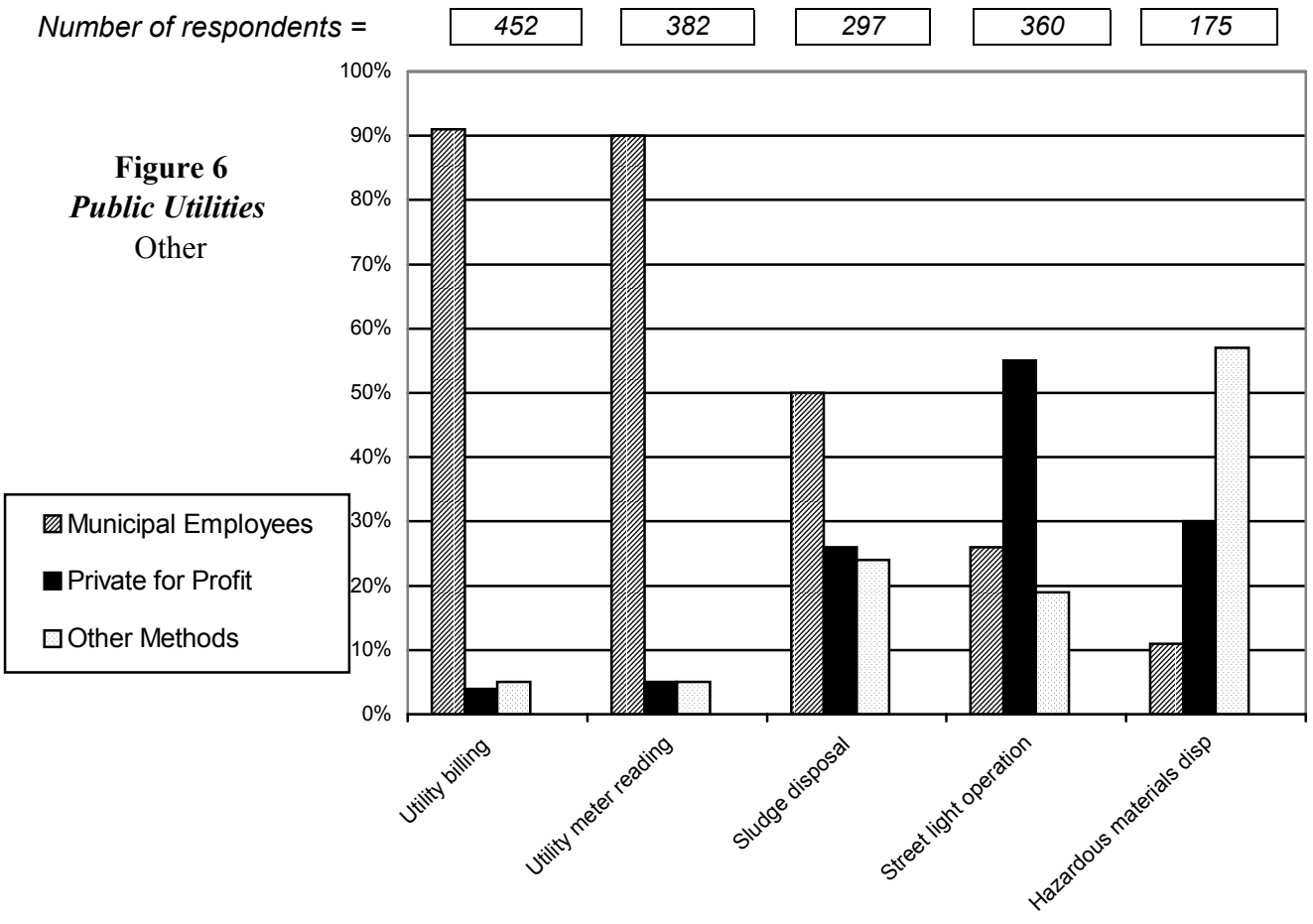
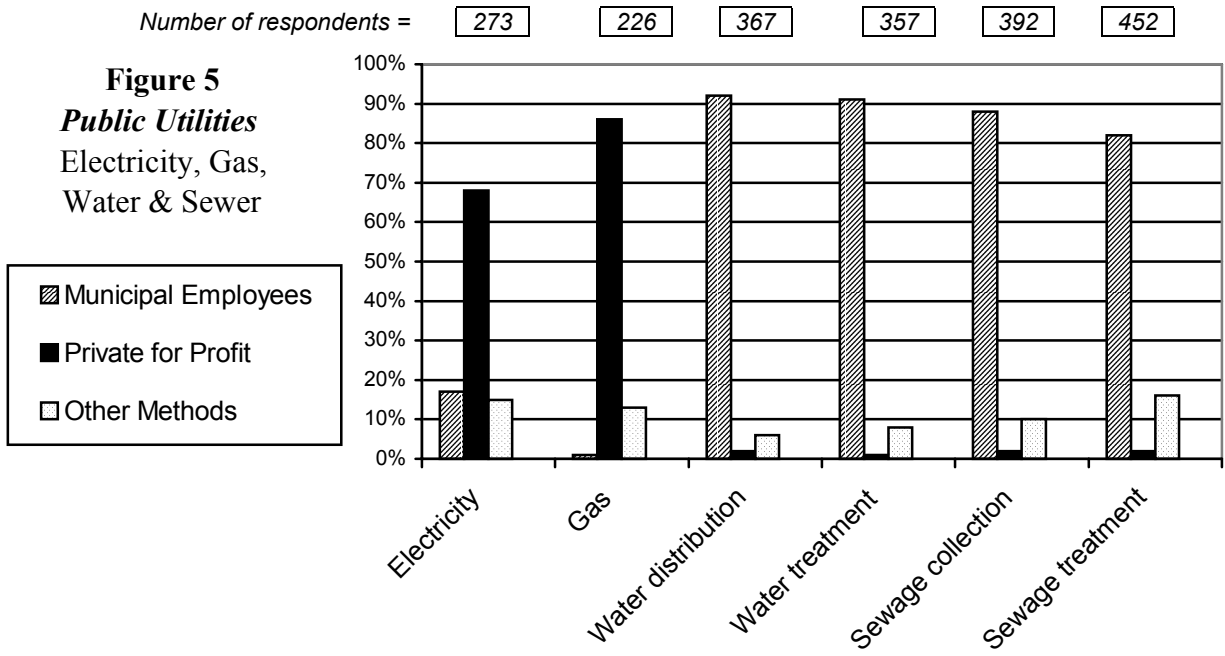
Number of respondents =

302 205 345

Figure 4
Public Works
Other Functions

▨ Municipal Employees
■ Private for Profit
□ Other Methods





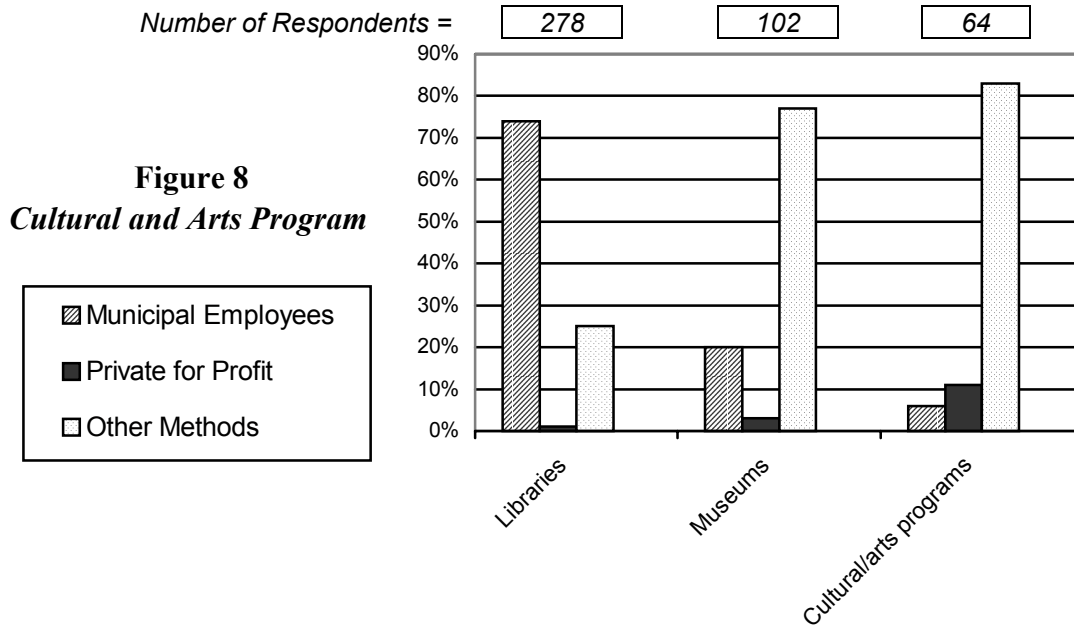
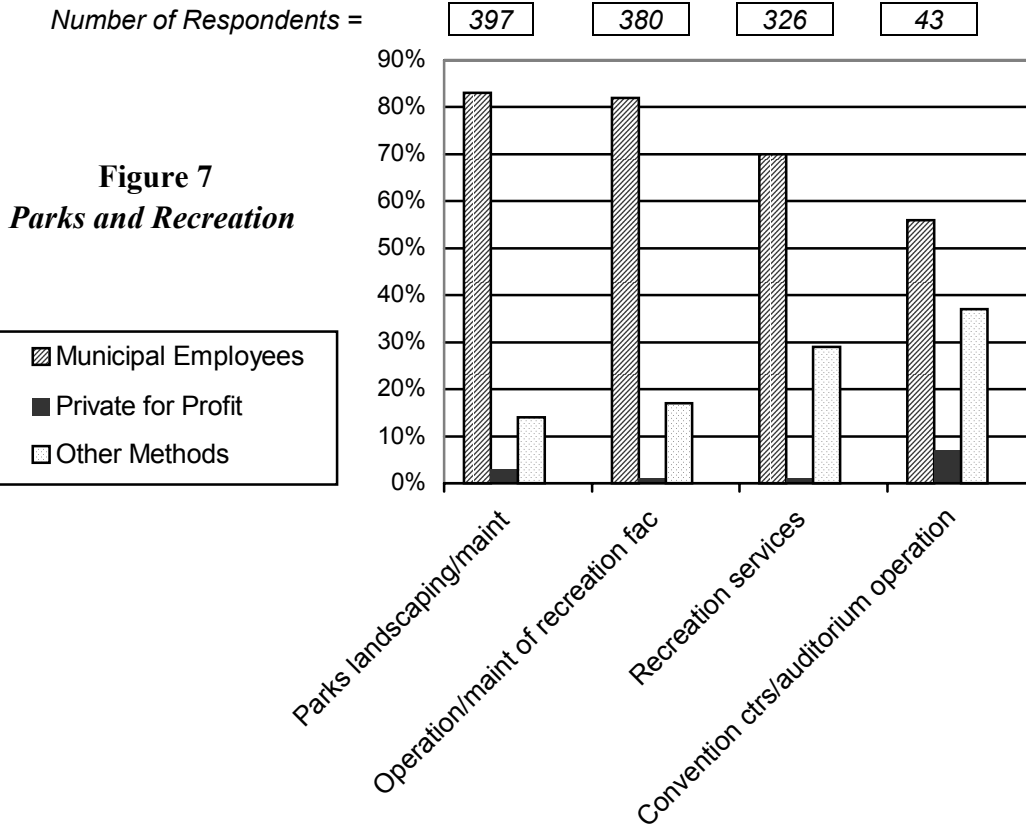


Figure 9. Intergovernmental Cooperation in Public Works: Percent of Wisconsin Municipalities Responding that Other Units of Government Produce Service
[Number of respondents with service produced by another unit of government and total number of respondents shown in parentheses after service category]

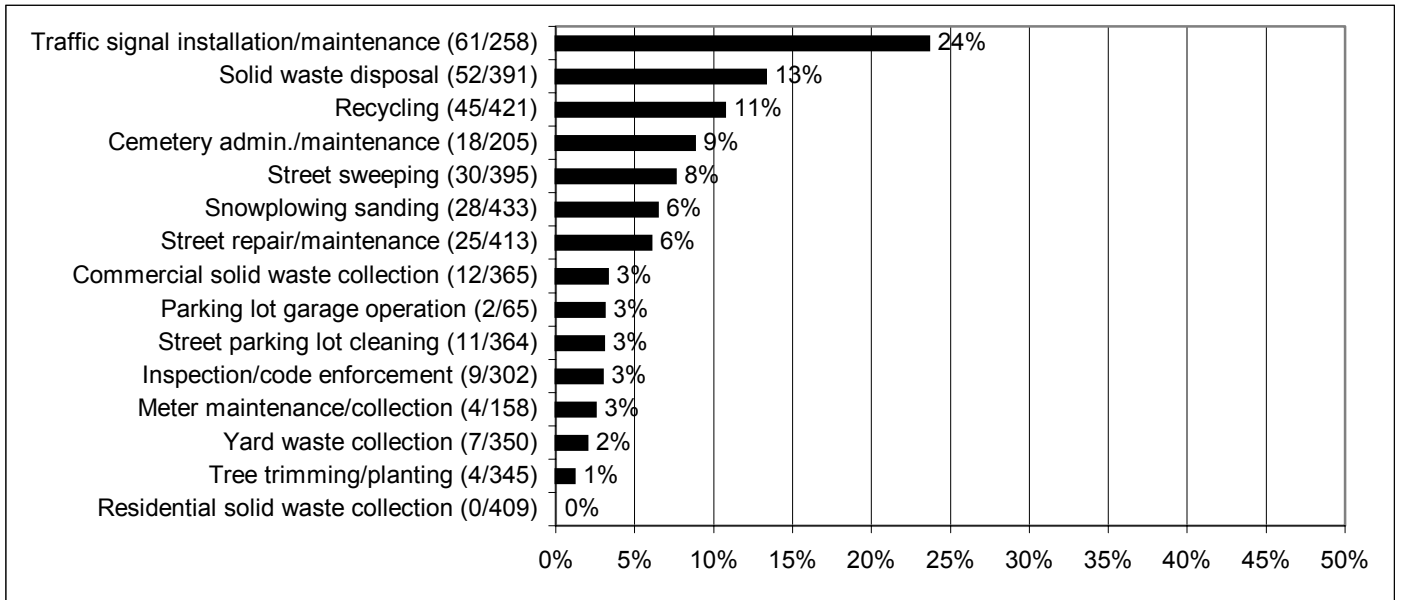


Figure 10. Intergovernmental Cooperation in Public Utilities -- Percent of Wisconsin Municipalities Responding that Other Units of Government Produce Service
[Number of respondents with service produced by another unit of government and total number of respondents shown in parentheses after service category]

