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**Local Public Services in Wisconsin:  
Alternatives for Municipalities  
with a Focus on Privatization**

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## 1. Introduction

Both rural and urban municipal officials, faced with increased local resistance to higher taxes, increasing expenditure needs, weakening financial support from higher levels of government, and the growing pressure to “do more with less” have accelerated their search for alternative ways of delivering local public services. The downsizing of government has been brought to the forefront of public discussion in part due to the general conservative shift at the federal and state level and the need to maintain a balanced budget at the local level. Related private sector trends downsizing middle management as a means to become “leaner and meaner,” reducing duplication and waste, and increasing earnings, profit levels, and returns to investors.

At the same time many local public officials are faced with rising costs to maintain an aging infrastructure, accommodating the needs of special populations, satisfying rules and regulations imposed by higher levels of government, funding new investments to meet the demands of a growing economy in some instances, or maintaining critical services in the face declining economies. In short, the rules of the game for effective management of local governments have changed. Citizen leaders are finding that formerly straightforward matters have become increasingly complex.

The conservative ideology that questions the role of government that has swept through Washington is finding a place in local governments. Newly elected officials who promise tax reductions have called into question the very nature of local governments. A new breed of local official is asking cutting questions and challenging conventional wisdom. Programs and services that have historically been offered by local governments are being asked to justify their existence. The issue that has raised to the surface is if certain services are to be provided, is the current arrangement for producing the service the most efficient means of accomplishing the goal.

As a result of these fundamental challenges, local officials are expanding their search for more effective methods of providing local services. One approach that has grown in popularity in the 1990s is to contract with private companies that previously have been provided entirely by government employees. Some public services, such as refuse collection and disposal, and vehicle maintenance have been provided by private sector contracts for many years. Now, with the shifting political climate and the growing attention paid to the number of public employees, the costs of employee benefits, and the attitude that small government is better, more pressure is being applied to contracting out even more services. Road and bridge construction and maintenance, management of jails, and the operation of water and wastewater treatment facilities are a number of services being turned over to private firms. Wisconsin’s recent welfare reform initiative further documents the growing faith that is being placed in the private sectors’ ability to get the job done at lower costs. A large number of county governments have contracted with private vendors to administer the implementation of W2 (Wisconsin Works, the state’s welfare reform program).

The academic literature is bursting with a number of studies documenting the cost savings that privatization appears to lead to in the end.<sup>1</sup> The sheer volume of empirical work and the consistency in findings (i.e., privatizing the service lowers costs) have had a great impact on the arguments advanced by reformers. A recent study of municipalities in Illinois found that the costs savings is a predominant reason for municipalities to contract with private firms (Johnson and Walzer, 1996). Care must be taken, however, when considering the potential cost reductions based on the “success” of other governments. It is important to note that these empirical cost estimates are derived from a biased sample that includes cost data of firms that have a contract, indeed only because their costs were below “in-house” production. This is not a trivial point: some reformers have taken the position that since they believe the evidence shows that costs are lower in nearly every case of privatization, then most, if not all, public services should be privatized.

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<sup>1</sup> Examples of these studies include Bennett and DiLorenzo (1983), Bennett and Johnson (1979, 1980), Bereny and Stevens (1988), Brooks (1996), Dubin and Navarro (1988), Edwards and Stevens (1978), Kitchen (1976), Linowes (1990), McDavid (1985), Perry and Babitsky (1986), Savas (1977, 1979, 1982) and Steven (1978) to name just a few.

The trend toward privatization has been extensively studied at the national and large city level. The academic literature abounds with case studies of Chicago, Los Angeles, and New York and similar-sized cities around the nation and the world. National studies tend to focus on larger urban or suburban areas but there is little systematic research examining the role of privatization in smaller to medium sized places. A recent study in Illinois (Johnson and Walzer 1996) represents one of only a few examples of studies looking at privatization efforts of local governments of all sizes. The study reported here follows the Illinois study but with a focus on Wisconsin.

## **1.1 This Wisconsin Study**

To document the extent of contracting for services in Wisconsin municipalities, the Center for Local Government of the University of Wisconsin-Extension, the Department of Agricultural and Applied Economics, University of Wisconsin-Madison, and the Wisconsin League of Municipalities initiated a comprehensive study of privatization. This report details the results of a mail survey of Wisconsin cities and villages which was distributed in the spring of 1997. A survey was sent to the clerk of all 585 cities and village in Wisconsin.<sup>2</sup> A total of 452 usable surveys were returned for a response rate of 73 percent, an expectable high response rate for surveys of government officials. The survey instrument used mirrored that used in the Illinois study of Johnson and Walzer which will allow for cross-state comparison in future analysis.

The survey addresses four main issues. First, municipal clerks were asked which types of services are provided by municipal employees or through contracted services with private firms or other public agencies. Respondents were also asked to rank their level of satisfaction with their current service delivery method. A total of 82 potential municipal services were included in the survey instrument. Municipal clerks were also asked if the incidence of privatization has changed in the recent past and whether there are any plans for change in the near future. A reproduction of the survey instrument is included as an appendix to this report.

Second, municipal clerks were asked about the impact of privatization on costs, particularly as it relates to public employees, experienced by the city or village. Respondents were asked if public employees were displaced as the result of the privatization decision and if the wages and benefits of the contracted firm were comparable to those of the public employees.

Third, respondents were asked to report on a variety of management practices, including reasons for initiating the privatization effort and the concerns expressed during the privatization decision-making process. In addition, information was solicited on the methods of monitoring the performance of the private firm and whether the municipality had realized significant cost savings.

Finally, respondents were asked what their sources of information on privatization were and where they turned for help in the decision making process. They were also asked to elaborate on their experiences in privatizing government services.

## **1.2 What is Privatization?**

Given the recent interest around the idea of privatizing selected public services, one might think that the notion is a relatively new concept. Nothing could be farther from the truth. During the late 19<sup>th</sup> and early 20<sup>th</sup> centuries in the US, a majority of the nation's transportation infrastructure and the services that it provided was privately owned and operated. But since that time there has been a movement by principally local governments to assume control of much of the infrastructure. The reasons for the gradual replacement of the private sector for provision of these services with the public sector mirror the classic description of what economists call market failure: 1) sufficient levels of financial investments were not made because the resulting positive externalities or spillover effects were difficult to capture, 2) people were excluded from consumption of the service, hence hindering

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<sup>2</sup> Towns were explicitly excluded from this study and may be the focus of a future research effort.

economic and social growth and development, 3) unequal tax (i.e., price) treatment and in many cases price-gouging or other abuses (i.e., market discrimination), and 4) general poor and unreliable services.

As the government assumed greater, and in many cases, sole responsibility for ensuring key services demanded by the public were supplied, the private sector has not been completely removed from playing a vital role. Governments, both at the federal and local level, have been buying items ranging from pencils to army tanks from private firms. By some estimates, nearly half of all federal, state and local government expenditures go directly to private firms. In 1955 the Bureau of the Budget directed all federal agencies to procure, wherever feasible, services from private firms rather than produce them in-house.

Today the term "privatization" can mean many things to different people. To some tax reduction zealots, privatization in the extreme means that government simply walks away from providing certain services and let the free market determine if, and at what level, the service will be provided. Some call into question whether local governments should be involved in providing certain services such as educational programs targeting low-income persons or young at-risk parents, or activities undertaken in economic development and planning departments.

Reduction of these services, however, is often more difficult to undertake as local residents assign value to these services. The power of special interest groups may be felt at the local level. In addition, in terms of total tax burden, the types of programs suggested for elimination or reduction are generally quite small. Larger ticket items that greatly impact local expenditures, such as public education, police and fire protection, and highways, are seldom, if ever, suggested for elimination or reduction. Indeed, demand for these larger ticket items is often increasing, imposing an even greater strain on limited financial resources.

Others view privatization as a means to introduce the efficiencies of market forces to the supply of public services. Many maintain that due to the lack of market forces, government is inherently inefficient and costly. By introducing efficiencies dictated by market forces, privatization of certain government services will reduce costs (hence taxes) which are paid by local residents; private firms competing against one another for the government contract will ensure that the service is provided at the lowest cost possible. In addition, if a private firm is in a position to secure several contracts from a multitude of local governments costs, can be even further reduced by capturing economies of scale.

If competition is not present, however, a central theme of the privatization argument collapses. In urban areas there may be an environment that allows the private firm some flexibility in selecting its optional size of operation. But in areas that are less populated and more rural, capturing economies of scale requires that firms secure a large number of contracts over a much larger geographic area. Unless rural governments are working together in their privatization policies and contract awards, cost savings may not be realized. In the extreme, no viable firm will bid on the contract.

Current research into the incidence of privatization suggests that there are several factors that might influence a local government's decision to put a service out to competitive bidding. First, local governments that are experiencing higher levels of fiscal stress, or the inability to raise additional tax revenues, often are forced to explore alternative means of service delivery. Second, the level of competition, or number of firms in a position to bid on the contract, is vitally important. Local governments that are located in more urban areas are afforded the potential to select from numerous bids from a range of companies. The available research confirms that local governments that are more rural and more isolated are less likely to privatize services.

Third, the level of unionization of public employees is a significant contributor to the likelihood of privatizing. Many municipal employees tend to be unionized and, understandably, unions are vehemently opposed to privatization. Union wage structures also tend to drive up costs to municipalities. But disproportionate wage structures and the resulting impact on municipal costs is

only part of the picture. The research suggests that the union's history with municipal officials is equally important. Unions that have a history of strikes and militant behavior tend to push municipalities to consider contracting out. Local residents faced with higher taxes due to large union contracts tend to be impatient with disruptions in services, particularly key service such as refuse collection. One study notes that, to keep costs low, many private firms offer substandard wages when compared to cities. That study points to two examples in Southern California, where refuse collection contractors regularly hire undocumented aliens, and Los Angeles bus drivers, who as private sector employees earn only about two thirds of what they were paid working for the municipal Rapid Transit District.

Finally, many local governments find that the transactions costs of privatizing certain services outweigh any potential benefits. When local governments elect to privatize a service there are two new costs facing the government: costs associated with developing and awarding the contract and costs associated with enforcing the contract. The lesson offered by the available research is that one must worry about the "nuts and bolts" of contractual arrangements and oversight and any corresponding unforeseen costs. For certain services, enforcement of contracts can be complex and costly because it is difficult to determine if the service is being provided for at the level stipulated in the contract. For example, in the case of police protection, how does one measure the services delivered by the police department. Ideally, an effective police department deters criminal activity so traditional measures such as arrest and conviction rates, number of citations, and number of officers on patrol per 1,000 persons fall short.

Clearly, the decision to privatize government services must be done on a case-by-case basis. Issues to consider including the number of viable firms that may be in a position to offer a bid on the contract and the ability to ensure that the firm awarded the contract is delivering the service at the prescribed level.

### **1.3 The Distinction Between *Provision* and *Production***

When thinking about the problem of selecting the most effective means of delivering a public service to local residents, it helps to think of the problem in terms of simple demand and supply. Here demand-related issues are concerned with whether or not a particular service should be *provided*, if so at what level, and how should the service be paid for. Here elected officials are charged with the responsibility of responding to the demands of their constituents. Some have suggested that the current trend in devolution of services to the lowest level of government is a reflection of demand-related considerations. Clearly, the residents of New York City demand different types and levels of services from the city government than do the residents of Superior, Wisconsin. To best meet the needs of the people, decisions about service delivery levels should be made at the local level. Generally, smaller units of government provide the best match between the demands of the local constituency and the final level of the service supplied.

On the other hand, supply-related considerations apply purely to the mechanical process of transforming inputs into outputs, or in our case, public services. Here the notions of economies of scale in production and other types of economic efficiencies, such as managerial efficiency, start to come into play. Generally, medium-to-larger units of government are best suited to capture *production*-related economies.

The difficulty that arises is when the optimal size of government that best satisfies demand or *provision* considerations does not coincide with the optimal size for supply or *production* considerations. On the one hand we may desire a network of smaller citizen-based local governments, but on the other hand, we desire a larger more economically efficient size of government to supply the service at the lowest possible cost to the taxpayer. The trade-off between demand or *provision* considerations and supply or *production* considerations have been thought about and discussed for years, but is often overlooked in public discussions at the local level. Concern is expressed that any decision to reduce direct local control over production-related issues

necessitates the loss of control over provisionary decisions. It is the loss of provisionary control that local residents are reluctant to accept, but service production may be achieved through a variety of entities.

Clearly the discussion over whether or not to privatize a public service is a decision over *production* related issues: who will actually assume responsibility for making sure that the service is delivered at the levels demanded by the local residents.

## **2. Municipal Services Contracted**

### **2.1 Fiscal Condition of Municipalities**

Opportunities to reduce costs by contracting for services with private companies vary by size and other characteristics. Municipal financial condition has been shown to be a primary factor affecting the decision to privatize. Wisconsin's city and village clerks were asked both about the current fiscal condition of the municipality and near-term prospects (1997-2002). These questions may include some reporting bias, but given the high response rate to the survey, the sample of cities and villages used in this study should provide reasonable insight into the overall thinking of local public officials about the current fiscal condition. The survey response results presented in Figures 1 and 2 are also presented in Table 2.1.

Of those responding to the survey, 59 percent reported that their revenues were adequate but that the municipality was not able to expand services (Figure 1). Figure 1 also shows that smaller municipalities (less than 1000) tended to respond in this manner slightly more frequently (66 percent) than larger municipalities (50 percent of cities of 5,000 or greater). The second largest response (21 percent) was that revenues are adequate and that some reduction in taxes may be possible. Again there is a difference according to size. Twenty-nine percent of the larger cities and villages reported stronger fiscal health, but only 18 percent of smaller municipalities reported that they are in a position to consider reducing taxes. A relatively small share, 19 percent, reported that revenues are inadequate, but that they are not likely to reduce services. Two percent of the municipalities indicated that revenues are so inadequate that they are being forced to reduce services.

The generally strong fiscal health of Wisconsin's cities and villages (as of 1997) can be attributed to many factors, including expansions of an already generous state shared aid program, an expanding economy and the corresponding increase in the overall property tax base. Additional reasons include the adoption of innovative cost-reducing means of service delivery including cooperative arrangements and, to some extent, the privatization of certain services.

The generally weaker performance of some of the smaller cities and villages may be due in part to the relatively smaller pool of resources that they can tap such as user fees and general charges. In addition, smaller municipalities often incur higher operating costs because of the inability to capture economies of scale without altering the service delivery mechanism. Smaller municipalities often do not have the same opportunities to expand their tax base through economic development and growth as larger municipalities do.

The future outlook is similar, but with a slightly more pessimistic outlook. Statewide, 59 percent of responding municipalities reported that revenues should be adequate to support current level of services, but that services are unlikely to be expanded (Figure 2). But, the number expecting to be able to reduce taxes declines to 17 percent while those expressing concern about the adequacy of revenues remained relatively the same. But, there was an increase in the share of larger municipalities that reported that current service levels may be cut. Generally, while larger cities and villages feel comfortable with their current fiscal outlook, their level of confidence appears to decline further into the future.

While these data generally paint a positive picture of Wisconsin's cities and villages, the general inability of the majority of municipalities to expand services in the future may be a cause for

concern. As the state's economy grows, and the population increases, the demand for public services is likely to expand. The question becomes one of whether or not the growth in revenue generation at the local level will be sufficient to meet new service demands. The data reported in Figures 1 and 2 suggest that for some municipalities, future difficulties may be very real.

As previously noted, the trend toward privatization appears to be linked, at least partially, to levels of fiscal stress facing each local government. If the fiscal health of Wisconsin municipalities appears to be positive, there may be only limited pressure to seek out alternative means of service delivery. On the other hand, not all Wisconsin municipalities reported positive fiscal outlooks and privatization may be more seriously explored over time. In addition, as the demand for services grows with the economy, and pressures to maintain, if not reduce, current tax burdens come to bear on local officials, interest in privatization as an alternative service delivery mechanism will increase.

## **2.2 Arrangements for Municipal Services**

Municipalities are responsible for providing a broad range of public services. These services are supplied through an equally broad range of delivery mechanisms ranging from the traditional "in-house" department to "joint departments" through cooperative arrangements to contracting with a private company (privatization). Another delivery service mechanism that has gained popularity in Wisconsin is contracting out for the service, but with another unit of government such as the county. Common examples of the latter are smaller cities and villages contracting with the county highway department for engineering services, construction, or daily maintenance. Indeed, the Wisconsin Legislature recently passed a statute that allows, and encourages, local units of government to competitively bid for contracts for services solicited by neighboring governments.

For this study, five service delivery mechanisms are possible. First, municipal employees provide the service directly. This is the traditional mechanism and generally the most common form. Second, the service is provided in part by municipal employees and in part by other governments or private firms. Third, another government, such as the county, town, or special district may provide the service rather than the city or village. Fourth, a private for-profit firm has been contracted with by the city or village (i.e., privatization). Finally, a private, non-profit agency, has been contracted by the municipality to provide the service. This latter service delivery arrangement is the least likely except perhaps in the form of some specialized social services such as a homeless shelter. But for other than the largest cities, this type of service delivery is unlikely.

The number of services provided by Wisconsin cities and villages varies widely across the state making it difficult to construct a common list for all municipalities. To provide as detailed information as possible, an exhaustive list of 82 separate possible functions was presented to municipal clerks in the survey instrument. Response rates to individual category varied to the extent that the service was part of the responding municipality's specific responsibility. Some services, such as municipal bus systems, had only a handful of responses (28 in this case). Care should be taken in interpreting the results for these categories of services that tend to be offered only in the largest cities. Most service categories had in excess of 200 respondents providing information.

Further, a complete reporting of all potential response combinations would make for a confusing and meandering discussion. To focus discussion, two service delivery arrangements are detailed: municipal employees and private for-profit companies. To further clarify discussion, services are grouped into the traditional categories: public works, public utilities, public safety, parks and recreation, health and human services, cultural and arts programs, and support functions.

In aggregate, the traditional form of supplying public services through employees of the local government appears to remain the dominant form of service delivery. Only in a handful of social service programs, such as homeless shelter management and mental health care programs and facilities, are no government employees solely responsible for service delivery. Although use of municipal employees is the predominant form of service delivery, privatization appears to be widely

used across Wisconsin.. Of the 82 service categories, only one, parole programs, did not have at least one municipality using a private company for sole delivery responsibility.



## **2.2.1 Municipal Solid Waste, Public Works, Transportation and Utilities**

By and large, 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.

### **2.2.1.1 Solid Waste**

Solid waste collection and disposal is one service that is most 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 environmental regulations concerning landfills under Subtitle "D." Specifically, 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. In essence, 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 the sufficiently large number of firms providing this service. When a municipality considers privatizing solid waste collection and disposal, there are generally a number of firms willing and capable of submitting competitive bids. While two national firms (Waste Management, formerly known as WMX Technologies) and Browning Ferris, Inc. (BFI) make up nearly 30 percent of the total waste industry, regional firms account for about six percent and more than 6,000 small private firms account for 34 percent (Reason Foundation 1995, p47).

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 tradition means of having public employees collect residential waste (Figure 3). Commercial solid waste collection through contracts with private for-profit companies is slightly higher at 80 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 private firms collect yard waste, 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.

An issue that is coming to the forefront of municipal solid waste collection and disposal is the implications of Subtitle "D" on the ownership structure of regional landfills. Because of the elevated costs of opening, operating and closing a landfill, coupled with the strong presence of national companies in Wisconsin, ownership of solid waste disposal sites (e.g., landfills) may be clustering into the hands of a few private companies. The pressure to vertically integrate collection and disposal services is real and likely to increase. In addition, the potential for regional monopolies to

form and exert undue market pressures are issues to be considered at not only the local but also the state level.

### **2.2.1.2 Public Works – Streets and Roads**

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. Public education is by far the largest proportion of local taxes, but since public schools are not within the purview of municipal governments, school expenditures are not a direct point of interest to this particular study.

Given the importance of the local road system to both the economic and social well-being of local residents, as well 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%, too small to be visible in bar #5 of the bar graph) have privatized street repair and maintenance (Figure 4). 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%) (2) traffic signal installation and maintenance (14%), the (3) cleaning of streets and parking lots (11%). (Figure 4)

Among public works functions, traffic signal installation had the highest instance of the service being provided by another unit of government (24%; Figure 9). Intergovernmental arrangements were indicated by 6 to 8 percent of municipalities for street sweeping, snowplowing/sanding and street repair and maintenance.

### **2.2.1.3. 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 5). Some officials point out that it is often more effective to allow the vendor who supplies the trees to plant maintain them for not only cost savings, but also 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.

### **2.2.1.4. Other Transportation Functions**

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 6) Note, however, that the number of respondents for these types of services was not large – between 34 and 52. Generally only larger cities tend to provide these types of services and most do not produce the services 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.

### **2.2.1.5 Utilities**

As might be expected, private companies supply a majority of the public utility services. For instance, 68 percent of cities and villages reported that a private company provides electricity and 86 percent of municipalities' gas services are provided by private vendors (Figure 7). Sludge disposal and hazardous waste disposal are contracted with private vendors in 26 and 30 percent, respectively, of responding municipalities (Figure 8). 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 falls under the jurisdiction of another unit 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, respectively. All other services had responses 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 8). 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. Nearly nine in ten responding cities and villages continue to reserve this responsibility, with less than two percent indicating that these services are delivered by private for-profit firms (Figure 7). 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, municipalities or special districts administer the targeted federal and state aid programs that help offset local costs. 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 are 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.

## **2.2.2 Public Safety**

In addition to transportation services and key utilities, local residents look to municipal governments to supply a number of other services ranging from police and fire protection, to recreational and cultural services to select health and human services. In addition, municipal governments face a number of expenditures simply to operate. These include the actual costs of municipal government buildings and the costs of administering government employee benefits programs. For many of these services, particularly in more rural areas, issues related to demand levels, monitoring of contracts, and social well-being in the broadest sense, make the decision to privatize much more complicated and difficult. Each of these service areas is examined in turn.

### **2.2.2.1 Public Safety**

The level of privatization of most police and fire services is very low –one to two percent (Figure 11). Police and fire training are only slightly higher (three to four percent). Building security, emergency medical services and ambulances exhibit somewhat higher levels of contracting with private for-profit firms than do most other public safety services, ranging from 12 to 14 percent (Figure 12). Of the other municipal public safety categories examined for this study, private firms supply only vehicle towing and storage services in any significant way (71 percent; Figure 12).

Several reasons can be advanced for why public safety services may not have experienced higher rates of privatization. First, police and fire protection is one service that local residents may be willing to devote additional public resources due to the importance of the services. Indeed, in some neighborhoods and business districts, local residents and business owners have agreed to hire private security companies to increase patrols and safe guard against crime. Second, because of the nature of the services provided, municipalities must be conscious of liabilities. Recent experiences with privately owned and operated jails in Texas have placed a spotlight on the legal exposure over-zealous employees of the private company may create for the contracting municipality.

Perhaps more fundamental is the difficulty in monitoring and enforcing contracts with respect to public safety. For example, how does one measure the effectiveness of a police and/or fire department? In the case of police departments, low crime rates may be considered a reasonable measure. But some studies of areas that are generally considered unsafe have found the crime rates, as measured by police statistics, to be relatively low because residents fail to report crimes due to what they consider to be an ineffective police department. Alternatively, using arrest rates as a measure of performance may encourage private security companies to act aggressively in order to satisfy contracted quotas.

Because of the diverse array of services provided by police and fire departments, specific benchmarks may be either too narrowly defined (e.g., quotas by violation classification), which divert resources away from other legitimate and important functions, or are so broad that they become meaningless. Ideally, an effective police department inhibits crime from occurring in the first place, something that is very difficult to measure, hence to monitor, in a contractual arrangement.

Wisconsin municipalities retain the traditional model of an independent police department and fire department. Figure 11 shows that 70 percent of cities and villages employ municipal employees for crime prevention and patrol and 56 percent for fire prevention and suppression. It is

important to note, however, that many municipalities have explored alternative service delivery methods. For example, several smaller cities and villages found that contracting with the county sheriff department or a neighboring police department to be a cost-effective alternative. While this is an example of intergovernmental cooperation rather than a privatization decision, the end result is contracting with an outside agency who may be in a better position to capture economies of scale and managerial efficiencies.

Other municipalities have found that cooperative arrangements where two or more municipalities join together to form a shared police or fire department can be cost effective. The idea of a common fire district covering several municipalities has been a tradition in and outside of Wisconsin for many decades. Here the costs of expensive specialized fire fighting equipment can be shared across several municipalities, lowering the costs to any one municipality but ensuring access to the equipment in case of an emergency. Figure 15 shows the extent to which cities and villages contract with other municipalities for public safety services, including crime prevention and patrol (16 percent of cities and villages) and fire prevention and suppression (27 percent). Police training and fire training are other areas with a significant amount of intergovernmental cooperation (36 percent and 35 percent, respectively).

A more common form of cooperative arrangement across several local jurisdictions is embodied in a common pool communication center that handles 911 emergency calls and dispatching. Given telecommunication technologies, the physical location of the communication center need not be within the immediate community. Several communities who may not be able to independently afford the technology can nevertheless share costs, ensuring access to state-of-the-art technologies. In addition, if cooperative agreements are in place for joint responses to emergency calls, a common pool communication center can more effectively coordinate a response. Figure 15 shows that intergovernmental cooperation in fire and police communication is extensive in Wisconsin, with close to half of the responding municipalities reporting that they cooperate with other units of government in those service areas – 47 percent for fire communication and 43 percent for police communication.

Emergency medical and ambulance services have experienced somewhat higher levels of privatization than have police and fire services (just over 30%; Figure 12). However, when compared to more urban areas, such as northeastern Illinois, the full potential of privatization does not appear to have been fully realized. In the past several years, “paramedic wars” have erupted between private providers and fire departments in some cities. Given the recent significant changes in the health care system, an increasing number of hospitals and health maintenance organizations are looking to internalize costs, including paramedic services. Intergovernmental cooperation also plays a significant role in emergency medical and ambulance services -- 36 percent report contracting with other municipalities (Figure 15).

### **2.2.3 Health and Human Services**

Health and Human Services is an area where alternatives to municipal employees for service delivery are common. In just three categories of services (relating to animal control and sanitation) are one third or more of Wisconsin municipalities using municipal employees, as shown in Figure 13: animal control (47 percent) and sanitation inspection (39 percent). Almost as large a proportion (31 percent) have engaged private firms for insect/rodent control. Animal shelter operations are operated by private firms in 19 percent of the municipalities.

There are a wide variety of alternative service delivery methods for services covering the elderly, children, the homeless, and various health programs, with privatization significant in just a few instances (Figure 14). Day-care facility operations have the largest incidence of service delivery through for-profit firms (64 percent), and the second largest is hospital management and operation, with 48 percent of responding municipalities. A smaller proportion of municipalities offer public/elderly housing services through private firms (28 percent). Twenty-one percent offer privately run drug/alcohol treatment programs.

Prisons and jails, and parole programs, are generally state responsibilities, often carried out by counties, so virtually no municipalities indicated service delivery through either private firms or municipal employees (Table 2.2). In fact, over 95 percent of municipalities report that those services are produced by other units of government (Figure 16).

A number of other health and human services are also carried out by counties or other units of government, and the survey results show that high levels of intergovernmental service production from the point of view of responding municipalities. Among them are child welfare programs (91 percent of municipalities), mental health and retardation programs (85 percent), homeless shelter management (84 percent), public health programs (79 percent), elderly programs (69 percent), drug/alcohol treatment programs (66 percent), and publicly/elderly housing (54 percent). (Figure 16)

#### **2.2.4. Parks, Recreation and Cultural Services**

Parks and recreation services are not generally viewed as areas where private firms are likely to have many profit-making contracting opportunities. Figure 17 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. Twenty-six percent make arrangements with other units of government, and 7 percent use private for-profit firms.

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, non-profit organizations or other units of government frequently run cultural/arts programs, and a predictably low number of municipalities offer these services either through for-profit firms (11 percent) or by municipal employees (8 percent; Figure 18). 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 18), 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.

#### **2.2.5 Support Functions**

Support functions cover a wide range, including building-related services, vehicle operations, financial and record-keeping services, and a variety of other services. Municipalities tend to operate their building-related services with municipal employees, ranging from 70 percent for janitorial services to over 80 percent for building security and building and grounds maintenance (Figure 19). Nineteen percent of municipalities contract with private firms for janitorial services.

On average, approximately half of the municipalities use municipal employees in their vehicle operations, ranging from 46 percent for emergency vehicles to 58 percent for heavy equipment, to 60 percent for all other vehicles (Figure 20). Across the four categories, the proportion of municipalities that contract with private firms ranges from 11 percent to 13 percent. A similar proportion of municipalities report that fleet management/vehicle maintenance and emergency vehicle services area accomplished with other units of government (Figure 23).

Cities and villages undertake a variety of financial and record-keeping services to keep the municipality running (Figure 21). Almost all municipalities (97 percent) do payroll administration "in house." Most municipalities also carry out their data processing and bill collection functions with

municipal employees (77 percent and 74 percent, respectively). Private firms carry out those services for 8 percent and 14 percent of municipalities, respectively.

Public employees in thirty to forty percent of municipalities carry out various municipal tax functions (tax billing, tax assessing, and delinquent tax collection; Figure 21). Among those functions, only tax assessing has a significant incidence of service production through for-profit firms (55 percent). It is common for cities and villages to contract with independent tax assessors, rather than retain a staff member for that purpose.

Figure 22 shows a variety of other support functions with a range of service production arrangements. The highest proportion of municipal employee-provided support functions occur with secretarial services (95 percent), personnel services (92 percent) and public relations/information (85 percent). Larger municipalities are more likely to need a full-time attorney, so it is not surprising that private attorneys are retained on a contractual or other similar basis by 75 percent of municipalities. Two other types of services with some degree of private, for-profit service production are food services (31 percent) and labor relations (21 percent).

Figure 23 shows three types of finance and record-keeping support functions with a significant instance of intergovernmental cooperation. It is common for counties to undertake title recording and plat map maintenance on behalf of municipalities, and 62% of cities and villages report service production through other units of government. Delinquent tax collection, and tax billing and processing, are carried out via intergovernmental arrangements by 53 percent and 41 percent of municipalities, respectively. All other support functions not shown in Figure 23 had 5 or fewer municipalities reporting intergovernmental arrangements for those services.

## **2.3 Recent and Future Trends in Privatization**

An additional key feature of the survey was to examine various aspects of the privatization decision, aspects of implementation, and future plans.

### **2.3.1 Past Experience and Future Plans**

There are no startling trends evident in the survey responses relating to recent past experience with privatization or in plans for coming years for Wisconsin cities and villages. Approximately 30 percent of responding municipalities indicated that they observed more contracting with private firms in 1996 than there had been in 1991 (Figure 24), but just 13 percent expected (in 1987) to increase privatization in the coming five years (Figure 25). Approximately 57 percent stated that the method of service delivery was unchanged between 1991 and 1996 and nearly half (47 percent) expect service delivery to remain the same in coming years.

### **2.3.2 Factors Influencing the Privatization Decision and Successful Implementation**

The reasons why municipal governments take the decision to contract out services previously produced by public employees are worth close examination. This topic 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 taken 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." Twenty-nine percent offered a variety of other reasons.

Are Wisconsin municipalities that consider implementing privatization more inclined to do so for *existing* services or *new* services? Figure 26 shows that 49 percent sought private service production contracts for existing services only, but nearly as many (46%) had contracts for both new *and* existing municipal services.

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 promoting privatization to the residents, and (3) the factors that made privatization successful. Each of these sets of responses is considered in turn.

### **2.3.2.1 Reasons for Privatizing**

The most frequently mentioned reason for privatizing services (cited by 70 percent of municipalities) was “internal pressure to decrease 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 27). Three additional responses had a combined total of approximately 45 percent: (1) “successful use in other jurisdictions”, (2) “external pressure on finances, including tax restrictions”, and (3) “concerns about municipal liabilities.” Thirty percent cited intergovernmental mandates. Fifteen percent gave that as their most important reason and an additional fifteen percent stated it as their second or third most important reason.

### **2.3.2.2 Methods for Promoting 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 promoting the privatization to residents. “Analyzing feasibility” was the most important method of 28 percent of municipalities, and was cited by an additional 36 percent as second or third most important promotion method, totaling 64 percent (Figure 28). Two other methods were cited by between 40 percent and 50 percent as one of their top three methods. “Promoting the general features of privatization” was the first choice for 18 percent, and was the second or third choice for an additional 25 percent. “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. 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.”

### **2.3.2.3 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.” Factors that made privatization initiatives successful are presented in Figure 29. “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 the municipalities mentioned “responsiveness” and “timeliness” of services as either the first, second, or third most important reason.

### **2.3.2.4 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 30). 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 municipal employee unions generally oppose privatization. Union-related reasons also surfaced in this study as an explanatory factor for not seeking the privatization alternative. Twenty-four percent and 23 percent of municipalities cited “restrictive labor contracts and agreements” and “opposition from unions”, respectively (Figure 30).



### **2.3.3 Administering Contracts**

This section reports the municipal responses to questions on the bidding of contracts, including vendor competition issues, the question of allowing public employees to bid on contracts, and intergovernmental contracting.

#### **2.3.3.1 Vendor Competition Issues**

A key component of a successful privatization strategy is competition – having sufficient firms in an area willing and able to bid on services. A large field of qualified private firms from which to select the best vendor enables a contracting municipality to ensure high quality services.

Ninety-one percent of municipalities indicated that they bid contracts competitively. Evidence indicating that competition exists for some services is that 81 percent of municipalities that engage in bidding indicate that a sufficient number of bids were received (Table 2.3).

#### **2.3.3.2. Employee Bidding on Contracts**

Having municipal employees compete for contracts alongside private firms is a practice that has received widespread attention in certain areas of the U.S. For example, in Phoenix, Arizona, public works managers decided to bid out solid waste collection services as a means to lower cost and improve efficiency. They divided the city into districts and allowed city employees to bid on collection services. At first, the city employee bids were not competitive, but in subsequent years they learned how to cut costs and were awarded the contracts in certain districts.

Eighty percent of the responding municipalities in this survey indicate that they do not allow municipal employees to compete for contracts. Of the 20 percent that do allow municipal employee bidding, 47 percent indicate that the employees have been successful a few times, and 12 percent stated that employees were frequently successful (Figure 31). However, 41% state that employee bidding has never resulted in the awarding of a contract. With only a small proportion of the respondents having had any successful experience with this service production option, it will be worthwhile to observe closely the experiences of the few municipalities that experiment with public employee contract bidding in Wisconsin and elsewhere.

#### **2.3.3.3 Intergovernmental Contracting**

An alternative to seeking competitive bids from private firms or public employees is to obtain bids from other units of government. This is a common practice nationwide, and Wisconsin is no exception, with 66 percent of municipalities indicating that they seek bids from other local governments. Twenty-eight percent provide services to other governments by contract. Fire and police communication provide one of the best examples of intergovernmental cooperation in Wisconsin.

### **2.3.4 Monitoring Contractor Performance**

Ensuring quality of service is a key function of a well-run municipality. Cities and villages undoubtedly vary widely in the extent to which they monitor and evaluate their own public employee-produced services. Nevertheless, monitoring contractor performance remains a key function so that the *service-providing* entity (local government) can ensure effective performance by the *service-producing* entity (the private firm contracted to produce the service). Seventy percent of respondents indicated that a system was in place to monitor the performance of the contractor. The only detail of the system requested of respondents was to ask the title of the person in charge of monitoring the contractor. Fifty-two percent indicated that department heads were responsible for monitoring contractor compliance, and 26 percent indicated the responsible person was the city administrator or manager (Figure 32).

### **2.3.5 Cost Issues and Employee Impacts**

Since cost savings is a major reason for considering privatization as an alternative, it was not surprising that 80 percent of cities and villages that have privatized some services indicate that they compare costs between services provided by a public agency and a private entity. In responding to the question of whether the privatization or contracting resulted in cost savings, 69 percent stated that cost savings were evident had “in some instances.” Roughly equal proportions (15 and 16 percent, respectively) had opposite experiences, indicating that there were cost savings “in all instances,” or that there had been no cost savings (Figure 33).

#### **2.3.5.1 Public Employee Union Issues**

Union membership of public employees is an important issue in privatization, since unions are likely to oppose privatization efforts. Affected employees were not unionized for eighty-four percent of municipalities (Table 2.3). Of the 61 municipalities that did have unionized employees affected by the decision to contract for services, 24 (39 percent) had contractors that recognized the union, (16) 26 percent did not recognize the union, and 21 (34 percent) said that union recognition was forthcoming “sometimes, but not in all cases.” (Figure 35)

#### **2.3.5.2 Impact on Employees of Privatization**

A key issue to consider is the impact of privatization on public employees. Concern over the welfare of employees may act as a disincentive to considering privatization. When asked what had happened to employees displaced by privatization or contracting, the most common response (42 percent of municipalities) was that workers transferred to other government jobs (Figure 35). The next most likely occurrences were that the municipal workers retired (19 percent) or went to work for the private contractor (6 percent). Thus in only a few municipalities (6 percent) were workers adversely affected, by being laid off.

Employee wages and benefits are also important issues in the privatization decision. People that express concern about contracting public services frequently cite lower wages and fewer benefits of private firms as the main reason that private firms are able to offer lower cost services, resulting in a detrimental effect on workers. An attempt to elicit more information on this question was not very successful. A large proportion of the respondents replied that they did not know whether employees had higher or lower wages or benefits. Figures 36 and 37 show that 68 percent did not know about wage differences and 77 percent did not know about differences in benefits. Municipalities that were aware of wage-rate differences were approximately equally divided, at about 11 percent each, between those that observed that private firms paid wages that were higher, lower, or about the same as the city or village paid. Thirty-nine municipalities (11 percent) observed that private-firm employee benefits were lower, and about equal proportions (6 percent each) said that the private firm offered either better benefits or about the same level as the city or village.

### **2.4. Where Municipalities Obtain Privatization Information**

The survey also inquired about sources of privatization and information needed. The most useful source of privatization information was other municipalities, followed by the League of Wisconsin Municipalities, Private Contractors, and the International City County Management Association (ICMA). (Figure 38) A number of municipalities indicated interest in obtaining information, with other three fourths requesting “cost comparisons between in-house and contracted services.” (Figure 39) Approximately 61 percent requested information on two additional topics: (1) performance review for municipal services, and (2) effective bidding systems for competitive contracting.” Three additional topics of interest to certain municipalities were: (1) designing effective monitoring systems for competitive contracting, (2) evaluating performance and experience of private contractors, and (3) transition strategies for public employees.

## 2.5 Summary

Local governments in cities large and small are wrestling with how to provide services to meet citizen demand while keeping tax rates from growing too rapidly. Increasing efficiency in the delivery of public services is likely to be a significant part of the solution, and local officials are increasingly recognizing that they can retain provisionary control over services while examining various alternatives for the production of those services. This report provided a broad overview of which types of services are being privatized (contracted by private firms) in Wisconsin's cities and villages, and which services tend to retain municipal employees as the main method.

The mail survey sent to city and village clerks addressed several issues. First, municipal clerks were asked which types of services (out of a list of 82) were provided by municipal employees, or through contracted services with private firms or other public or nonprofit agencies. Respondents also reported on a variety of issues and practices relating to their privatization initiatives, including reasons for initiating the privatization effort, concerns expressed during the privatization decision making process, the means of monitoring the performance of the private contracting firms, their experiences in privatizing government services, impacts on the cost of local public services, and where they turned for help in the decision making process.

Public works and public utilities emerged as the services most suitable for privatization. Large capital investments and specialization of services are key characteristics of refuse collection and disposal, recycling, road construction, and distribution systems for electricity, gas and water. Economies of scale and managerial efficiencies are therefore possible if several local governments purchase services from one provider. Also, since the quantity and quality of service produced is relatively easy to measure, contracts are easier to design and enforce.

Solid waste collection and disposal is one of the areas with the largest incidence of privatization, due to the reasons stated above, plus the stringent environmental regulation and high cost associated with landfills. Street sweeping and a few other street-related functions have been privatized to a modest extent. Certain aspects of road maintenance, such as snow plowing, have been contracted to private vendors in a few Wisconsin municipalities. The privatization experiences of municipalities that attempt it will be instructive in the coming years.

Other public work and transportation services are less likely to be privatized. Although local road systems are an important part of local government budgets, street repair and maintenance exhibit a low incidence of privatization. Instead, contracting or cooperating with other units of government, such as county highway departments, is more common. Other units of government also often handle hazardous waste disposal.

Private companies provide a significant proportion of certain public utility services, specifically electricity and gas. In contrast, service production by public employees predominates with water treatment and distribution, and with wastewater collection and treatment. However, privatization of water and wastewater treatment is definitely on the rise. The prospect of costly reinvestments and declining federal aid is causing a number of municipalities to examine a variety of service production options.

The survey showed that the incidence of public safety privatization is low. Most Wisconsin municipalities retain their own police and fire departments. However, intergovernmental cooperation is significant for some services, such as emergency communication. A number of smaller cities and villages contract with the county sheriff or a neighboring police department. Fire districts commonly cover several municipalities.

In health and human services, there are relatively few instances of privatization, but a wide variety of alternative service delivery methods are in use, including cooperating with other units of government. Parks and recreation services appear to have fewer profit-making opportunities, and represent service areas where it may be difficult to specify measurable contractual standards. A

significant proportion of municipalities report that cultural and arts programs are offered through other units of government and through non-profit organizations.

Internal pressure to increase costs led the list of reasons for privatizing, but many municipalities also cited external pressures such as tax restrictions. Methods for implementing and promoting privatization included analyzing feasibility, identifying successful uses in other jurisdictions, and using privatization only for new or growing services. Factors contributing to success included various positive characteristics of the private vendors, such as high quality of work, responsiveness, and timeliness. Over two thirds of cities and villages indicated that they benefited from cost savings, at least in some instances.

Various municipalities considered but rejected the privatization option for certain services, citing such reasons as insufficient evidence of effectiveness, loss of control, and lack of firms capable of bidding. The number of firms is a critical issue, and many other municipalities found that at least for some services, plenty of firms are available. Ninety-one percent of municipalities bid out one or more services, and 81 percent of those that engage in bidding responded that a sufficient number of bids were received.

The fate of displaced municipal employees is a concern for many, and the most common response was that workers affected by privatization were able to transfer to other government jobs. A smaller percentage of workers retired or went to work for the contractors. Six percent of municipalities indicated that workers were laid off. Questions about whether contractor wages or benefits are lower offered by cities and villages did not yield conclusive results, with most responding that they did not know.

Although the traditional form of supplying public services through employees of the local government appears to remain the dominant form of service delivery, the survey shows that privatization is widely used across Wisconsin. Service categories with the highest incidence of privatization represent the areas where municipalities that are seeking alternatives could look first for privatization options. Future research could look more in depth for the reasons behind the observed trends, and provide more detailed guidance on the circumstances under which privatization, intergovernmental cooperation, or other methods of service production may provide the most effective way to serve residents.