The use of privatization in the public sector: A focused study on the Inland Empire

John David Jamerson

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THE USE OF PRIVATIZATION IN THE PUBLIC SECTOR
A FOCUSED STUDY ON THE INLAND EMPIRE

A Project
Presented to the
Faculty of
California State University,
San Bernardino

In Partial Fulfillment
of the Requirements for the Degree
Master of Public Administration

by
John David Jamerson
November, 1992
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Approved By:

Dr. Naomi Caiden, Department Chair
Dr. Clifford O. Young
Dr. Brian Watts

Date 11/20/93
The current recession has caused the worst fiscal crises for government agencies since the great depression, and the continuous public outcry for more public services and fewer taxes has caused these agencies to streamline their organizations and look for other ways to provide services normally provided by the public sector. According to the National League of Cities, seven out of ten cities were less capable of meeting budgetary needs in 1991 than they were in 1990. This deepening fiscal crisis has given a greater impetus to government officials to look at the private sector to provide the routine government functions. Nowhere in the United States is the fiscal crises more prevalent than in Southern California’s Inland Empire. Once the location of the fastest growing cities in the country is now the site of cities trying to avoid bankruptcy.

Do the cities in Inland Empire experience the same benefits when privatizing public services as the rest of the nation? In a June 1992 survey of City Managers from the 17 incorporated cities located in the Inland Empire on their city’s use of privatization, the overwhelming advantage experienced in privatization is cost saving. Offsetting these findings are indications that cities are sacrificing the service quality and the loss of control over the services provided. The survey also indicated that 50 percent of the city officials have increased their consideration to contract services such as ground’s maintenance, fleet maintenance, and recreation, because of the fiscal constraints placed on them by the recession. However, 75 percent of the cities indicated their government’s decision to privatize will not displace current employees.
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Chapter 1

Privatization In The United States
PREFACE

In 1991, the worst state and local government fiscal crises since the Great Depression accelerated into 1992 with no indications that the economy will come out of this economic nose drive anytime soon. This "deepening state and local fiscal crises experienced by governments across the country gave added impetus to state and local officials to use private sector resources in the provision of public services."\(^1\) At stake are considerable cost savings of 20 to 30 percent in the "routine housekeeping" functions (garbage pickup, street maintenance, park maintenance, vehicle towing, etc.) according to a survey conducted by the Reason Foundation of the 24 largest cities in the country.

According to the National League of Cities (NLC), "More than one in four cities faced a budget gap of at least five percent, and, because of fiscal constraints, seven out of ten were less capable of meeting budgetary needs in 1991 than they were in 1990."\(^2\) Nearly half of all cities surveyed by the United States Conference of Mayors (U.S.C.M.) in October 1991 said "their fiscal plight will get worse before it gets better."\(^3\) According to the U.S.C.M. survey, 59 percent say they are laying off employees and 74 percent are going to delay all capital improvements.

With the economy continuing its descent and service needs rising, state and local governments are looking at downsizing and streamlining their operations to become more efficient at providing public services. If surveys are any indication of trends, the primary way government organizations are going to provide public services are through the private sector. Still, the main impediment to contracting public
services is the lack of understanding of how privatization works and how the concept can be used to secure greater efficiency and accountability. The following pages will introduce you to the concept of privatization, the advantages and disadvantages at a national level, and the effect privatization has on minorities. The paper concludes with a focused look at seventeen cities located in San Bernardino and Riverside Counties, known as the Inland Empire.

THE PRIVATIZATION CONCEPT

Contracting out public services has been popular since the late nineteenth century when granting franchises for transit and other public services was viewed in the early years as a political favoritism that frequently led to pricing abuses and other "monopoly" practices. A bias developed to make local government more professional by reforming hiring, selection, and other government personnel practices. This had an effect on contracting out public services. Reformers began to demand public services directly from the government instead of through the private sector, a practice that frequently led to corruption.

The focus to reduce corruption and increase professionalism in local government was followed by another reform in the 1960s that pushed for equity and citizen participation in service delivery. This reform focused on developing a more representative public sector and encouraging the general public to take a more active role in government.4 This was characterized by the advocacy of volunteerism, the proliferation of neighborhood movements and decentralized local school boards, to name a few. The backers of private delivery claim that contracting out would lead to increased efficiency and those other approaches such as the use of neighborhood
groups and nonprofit organizations to assist in service delivery would enhance both equity and citizen participation.\(^5\)

Over the last ten years, United States cities and counties have grown increasingly reliant on the private sector to deliver goods and services traditionally provided by the government. The term coined for this trend is "Privatization" and refers to the attainment of any public goal through the participation of the private sector.\(^6\)

The debate over privatization revolved around what services the government should provide and how the government should provide those services. When the government decides to use the private sector to deliver a service, it does not give up the responsibility to provide that service. Our country, from the beginning, has relied on the public workforce and at times on the private sector to provide services that are usually delivered by the public sector. Regardless of how or who provides the services, the government continues to oversee and have the ultimate responsibility to deliver the services. When the government turns to the private sector to provide a service, the government develops the specification for the work to be done, it monitors the service delivered, and it controls the funds. A service contracted out, in fact, has not become private at all; it is still very much a function of the government.

There are generally three forms of privatization widely used in the U.S.: the government voucher program, private ownership and operation of facilities that provide public services, and contracting out.

The voucher programs are used in such areas as housing, education, and health care. Under the voucher concept, a recipient of a government service is permitted to look in the private sector to find a provider of the service instead of dealing with the services that is delivered by the government.

Another form of privatization is private ownership and operation of facilities that provide public services. This form of privatization is mainly used for large scale public
services. A local example of this would be the Chino Basin Sewage Treatment Plant serving the Fontana - Ontario area. This plant handles the sewage from the San Bernardino County's west end cities and the private owners charge the cities a fixed fee for the service they provide.

The most popular form of privatization, and the focus of this paper, is contracting out. This is the most widely used form of privatization in the U.S. Touche Ross found that 99 percent of U.S. cities contract out least some services. Most contracts are awarded through a competitive bidding process, which allows the government to get the service at the lowest possible cost.

**GROWTH OF PRIVATIZATION**

Although privatization has been around since the late nineteenth century, it was not until recent years that privatization mushroomed. Between 1972 and 1982, the total dollar amount of local government contract awards with private firms tripled from $22 billion to $65 billion. Every indicator has shown that that number has continued to rise from the impressive amount set in 1982. The list of services that local governments are opening for competitive bid to the private sector is also rising. Municipal governments are now contracting such services as data processing, fire fighting, golf course operations, local air traffic control, planning services, public information, and city management.

Privatization is no longer an ideological issue. It is an economic efficiency issue. Local governments need the type of economic relief that can be provided by private enterprise. The need for such assistance will continue to grow for several reasons, such as:
• "Provisions for deficit reduction will continue cutbacks in numerous federal assistance programs, including general revenue sharing, especially under Gramm Rudman-Hollings.

• Public resistance to new public spending and "tax-payer revolts" will demand new funding methods for traditional service delivery.

• Replacement of aging facilities and provision of new facilities in expanding communities will create a demand for capital.

• The political pendulum swing toward market-oriented solutions set in motion by the current administration will not soon lose momentum.9

Table one shows the percentage of cities that were contracting out services in 1987.

The trend to open public services to private sector competitive bidding was calculated to exceed the $3 trillion mark by the year 2000 in the area of infrastructure improvements alone.10

What has prompted this need to contract public services? Why are so many local government agencies willing to pay out taxpayer's money to the private sector to deliver services the public sector usually provides? From a government's perspective, several reasons exist. According to a survey of public officials they are to:

• Reduce costs;

• Increase the efficiency of the operation through privatization;

• Improve the delivery and quality of services;

• Reduce government bureaucracy, and;
Table 1

<table>
<thead>
<tr>
<th>Services Most Frequently Contracted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicle Towing</td>
</tr>
<tr>
<td>Vehicle Maintenance</td>
</tr>
<tr>
<td>Utility Billing</td>
</tr>
<tr>
<td>Transit Services</td>
</tr>
<tr>
<td>Traffic Signal Maint.</td>
</tr>
<tr>
<td>Street Repair</td>
</tr>
<tr>
<td>Solid Waste Disposal</td>
</tr>
<tr>
<td>Refuse Collection</td>
</tr>
<tr>
<td>Recreational Facilities</td>
</tr>
<tr>
<td>Payroll</td>
</tr>
<tr>
<td>Legal Services</td>
</tr>
<tr>
<td>Hospitals</td>
</tr>
<tr>
<td>Data Processing</td>
</tr>
<tr>
<td>Crime Patrol</td>
</tr>
<tr>
<td>Corrections</td>
</tr>
</tbody>
</table>

- Shake up a government unit or break up a union.\(^1^2\)

The reason most often given for contracting out city services was cost savings, but there are additional advantages to contracting out besides cutting down on the budget. Municipal administrators frequently cite the following benefits from contracting out:

- "Contracting out may give the city manager access to specialized skills and worker expertise often unavailable within the government work force.
- Contracting out accelerates adoption of new technologies and capital equipment that may not yet have been introduced within the government.
- Contracting out may allow the private sector to take advantage of economies of scale in providing a service to more than one city."
• Contracting out can generate greater flexibility in service provision by by-passing normal government bureaucratic regulation and red tape, such as in hiring and firing of workers.

• Contracting out can serve as a yardstick to measure government "in-house" costs with those in the private sector.

• Contracting out, particularly in the area of human service delivery, leads to greater effectiveness in assuring that program benefits reach program recipients, because neighborhood-based providers are often better equipped to identify and locate needy citizens.¹³

Table two shows the results of a survey of over 1,000 city administrators who were asked to list the advantages of privatization.

While survey data consistently shows cost savings to be the most prized advantage of privatization, a 1992 survey of 158 state government agencies, by Apogee Research, Inc., found that a number of additional considerations, including higher quality service, shorter implementation time for service provision, and the provision of additional services not otherwise available to the community, are prompting state governments to contract out for services.¹⁴

FACTORS THAT INHIBIT SERVICE CONTRACTING

Privatization, with all its advantages still has inhibiting factors that cause city officials to be reluctant to contract public services to a private firm. The two concerns that often arise are (1) switching to private providers diminishes public control over the government activity, leading to poorer service quality or corruption; and (2) competitive contracting may threaten the government workforce with job loss or reduced wages.

When a city contracts out a service it loses a degree of direct control over the activity in order to benefit from the lower budgetary costs associated with going private.
To local officials, the issue of whether contracting out will lessen the quality of service provided to the public is of great importance. A report by the American Federation of State, County, and Municipal Employees (AFSCME) on cities contracting out concluded that "private contractors ... cut corners by hiring inexperienced, transient personnel at low wages, by ignoring contract requirements, or by providing inadequate supervision." 16

Information supporting this report was furnished in a 1992 focus survey of 17 local municipalities located in San Bernardino County in California. Forty-one percent of the respondents claimed of poor service from the private sector. This information is in contrast to a 1988 study prepared by Dudek and Company for the National Commission for Employment Policy that concluded that contracts leading to inferior quality of service were the exception and not the rule. A nation-wide study of municipal
contracting found no reduction in service quality in cities that contracted out. The California Tax Foundation surveyed 87 California local government officials in 1981 who were involved in contracting out. Thirty-six respondent's complained that their city received poor service. It is apparent that the satisfaction level of private service delivery has gotten worse over a nine year period. If a city receives poor service from the private sector it may come from the city's monitoring procedures and lack of specific criteria in the written performance contract. Cities can ease the problems associated with poor service by including explicit performance criteria in the written contracts and hiring a contract compliance and monitoring officer. So often cities enter into agreements with a private service provider but fail to assign staff to monitor the quality of service. Result? The potential for poor service. A contract compliance officer would serve as a watch dog for the numerous agreements that cities are now entered into.

By far the most critical issue associated with contracting out is its impact on the public employees. Public employees and their unions fear job loss and pressure for reduced wages from competitive contracting. Proponents of privatization state "... if privatization enables governments to cut wages and break unions, it is a means of imposing losses on public employees." If it enables governments to cut back services and allows providers to skim off the best clients, it is a means of imposing losses on beneficiaries. Neither of these ways of reducing costs improves efficiency. The fear of job loss is a legitimate one. This fear is one of the main barriers that keeps public officials from initiating the privatization concept. However, the transition can be made without crucial layoffs. "A typical government loses 10 percent of its employees every year. By taking advantage of this attrition, governments can often avoid layoffs."

The overwhelming opposition to privatization by public employees and their unions has caused an upsurge of growth in the public employee unions. There is some evidence that the more power the employee union holds in a city, the less likely it is that
the city will contract out for service delivery. In fact, the strength of public employee unions is growing compared to other unions, which has shifted its political influence in the direction of government workers. Between 1973 and 1983 membership in unions representing private sector employees dwindled. The United Steel Workers, the United Mine Workers, and the United Auto Workers each lost over 32 percent of their membership. Membership in the American Federation of State, County, and Municipal Employees (AFSCME), on the other hand, grew by 380,000 members, a sixty-six percent increase.20

Municipal unions deny that privatization can produce the purported benefits or that properly managed municipal employees could not achieve the same results as the private sector. Unions also complain about the likely loss of their member's jobs.

Two groups that are especially concerned about the potential loss of jobs due to contracting out are minorities and women. Minorities have especially been concerned about the potential loss of jobs because they rely on public employment more so than the white population. (In 1980, 27.1 percent of all employed blacks worked for the government, compared with 15.9 percent of whites.)21

A study conducted in 1985 by the Joint Center for Political Studies gauged the impact of privatization on the economic opportunities of minorities. They studied 10 cities that use a variety of privatization arrangements to deliver a group of common services. Each of these cities had a population of 50,000 or more, at least 20 percent of which was minority.22

The study concluded:

1) "Blacks are more vulnerable to the adverse consequences of "alternative service delivery" approaches because they constitute a disproportionate share of the government work force. Table 3, taken from the study, shows that they are about twice as likely than whites to work for the government."
2) Hispanics are not likely to be disproportionately impacted by contracting out. They have rates of government employment equal to or slightly below the rates for whites, as is shown in Table 3.

Table 3

<table>
<thead>
<tr>
<th>Comparison of Government Employment Rates: Whites, Blacks, and Hispanics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Percent of workers 16 years and older employed by the Government</strong></td>
</tr>
<tr>
<td><strong>1980</strong></td>
</tr>
<tr>
<td><strong>White</strong></td>
</tr>
<tr>
<td>Federal</td>
</tr>
<tr>
<td>State</td>
</tr>
<tr>
<td>Local</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

3) A much higher percentage of blacks in high skill managerial and professional positions (53.5 percent) are employed by the government than is true of whites (28.9 percent) or Hispanics (33.4 percent). The authors conclude from this that contracting out might impede black professional employment opportunities for whites and Hispanics, as shown in Table 4.

4) The evidence did not support the contention that the adverse employment impacts of contracting out fall disproportionately on blacks. Generally, when municipal employment was reduced in the 10 cities studied: "The proportion of minorities employed in the municipal work force remained relatively stable." However, the percentage of minorities in professional positions was reduced by contracting out.

5) Minorities were found to have gained employment opportunities with private sector contractors at about the same proportion as they do with government departments.

Table 4

<table>
<thead>
<tr>
<th>Percent of Managerial and Professional Workers Employed by the Public Sector Versus the Private Sector, 1980: by Race and Spanish Origin</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Percent Employed By:</strong></td>
</tr>
<tr>
<td><strong>Public Sector</strong></td>
</tr>
<tr>
<td>Black</td>
</tr>
<tr>
<td>White</td>
</tr>
<tr>
<td>Hispanic</td>
</tr>
</tbody>
</table>

6) Minorities who went to work for private contractors generally received lower pay and less generous benefits that what they received working for
the government. However, when the private service workers were unionized these wages and benefit disparities were reduced significantly.23

Studies conducted by Dudek and Company and Robert E. Suggs came to the same overall conclusion, as long as opportunities for minority economic advancements are heavily concentrated in the public sector, reducing the size of government may curtail an important avenue of social and economic mobility for minorities.

The issue on how contracting out effects women in the public work force is much more straightforward. The bulk of the evidence concludes that women are not adversely affected. One might think that because the government work force is composed of mostly women, women would be expected to be more heavily affected by contracting out than men. However, women who work in government are less likely to be employed in service occupations than men; thus, is far less likely to be affected by alternative service delivery approaches.
Chapter 2

Focus Study:
The Inland Empire and the Privatization Concept
FOCUS STUDY: THE INLAND EMPIRE AND THE PRIVATIZATION CONCEPT

A. The Sample Selection

The focus of the study was seventeen incorporated cities in the San Bernardino/Riverside County area otherwise known as the Inland Empire. The term "Inland Empire" refers to the region in Southern California encompassing the communities in Riverside County, San Bernardino County, and the extreme eastern portion of Los Angeles County. This study was limited to Riverside and San Bernardino Counties with the following cities chosen for testing: Chino, Colton, Corona, Fontana, Grand Terrace, Highland, Loma Linda, Montclair, Moreno Valley, Norco, Ontario, Rancho Cucamonga, Redlands, Rialto, Riverside, San Bernardino, and Upland.

Of the 41 incorporated cities in both Riverside and San Bernardino Counties, these 17 cities only represent the use of privatization for the cities located in the valley region. The comparable service needs of the valley and desert regions being the same are, however, provided differently with the desert regions contracting most of their services because most of the desert regions are surrounded by unincorporated county areas. The incorporated desert cities continued to use those services provided by the county on a contract basis.

B. Method Used

The data collection method used in this study was a mail survey instrument. Whereas, the information to be collected can only be obtained by asking particular individuals, using survey research was the primary choice for data collection. In this
study, the survey was mailed to the City Manager who could provide the information with reasonable validity and accuracy.

C. Survey Format

The question format used in this survey was direct questioning. The intent of each question is straightforward and elicits a forced response. A forced response questionnaire allows ease in comparability.

Respondents were asked for their opinions about privatization, how they have used it or plan to use it, and what its results have been. This study concerns local government's use of three categories of privatization: 1) contracting services; 2) privatizing facilities; and 3) asset sales, as well as why they use these various types of privatization. Respondent's were then asked what they experienced as being the advantages and disadvantages of each type of privatization, each question listing possible answers with the respondent answering as applicable. The respondents were also asked about their possible reluctance or obstacles faced when considering the use of privatization followed by questions about monitoring and evaluating alternative service delivery. Finally, the respondent's were asked if the current recession has increased their interest in privatization and if so what type or types of privatization, each question listing possible answers and the respondent answering as applicable.

The survey was eight pages in length and the respondent's were given three weeks to respond. After the third week nine responses were received and plans for a second mailing were put into process, however, instead of a second mailing, the surveys were delivered in person with hopes that the respondent's would see the importance of this study. The eight cities were given two and a half weeks to respond. At the end of two and a half weeks seven response were received making the total number of respondent's sixteen. The City of Colton was the only city that did not respond therefore the survey results are based on sixteen responses.
ANALYSIS OF SURVEY

The purpose of this report is to find out if local governments in the Inland Empire are turning to alternative methods of delivering public services, and if so to identify the advantages as well as the disadvantages of "privatizing" those city services, and to determine whether the current economic recession has caused the cities to consider increasing the use of alternative service delivery. Therefore, the results of the survey conducted for this report will be analyzed by compiling and graphically displaying the data. (See Appendix for Sample Survey)

1. Use of Privatization:

All of the respondent's indicated that their city has used one form of privatization or another in the last five years. All of the respondent's have contracted services, two respondent's privatize facilities, and three respondents have sold assets to the private sector. (Table 5)

<table>
<thead>
<tr>
<th>Form of Privatization</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Sales</td>
<td>19%</td>
</tr>
<tr>
<td>Contract Facilities</td>
<td>13%</td>
</tr>
<tr>
<td>Contract Services</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 5

A1. Services Contracted: Table 6 shows the services most frequently contracted out in the last five years. Of all services contracted, 88 percent of the respondent's
indicated that they contract out Buildings or Grounds Maintenance, 69 percent contract solid waste collection, 56 percent contract vehicle towing or storage, 50 percent contract traffic signals or street lighting, 44 percent contract administration, and 38 percent contract data processing and fleet maintenance.

A2. Principal Reason for Contracting Services: The respondent's were asked to identify their principal reason for pursuing to contract services out. Most of the respondent's (11) indicated that cost saving was heir most important reason for contracting services and six respondent's indicated that better services were the least important reason they contracted services. Lack of staff and insufficient facilities received low marks as being the principle reason for contracting services.

B1. Privatizing Facilities: Three respondent's, the City of Fontana, City of Highland, and the City of Riverside, indicated that they privatize facilities. Even though the City of Highland did not respond to this fact in the fist question, perhaps because the first question did not provide a list of facilities as did question B1. In any case, the City of Highland indicated that they privatize either roads, bridges or tunnels and the City of Riverside privatizes their convention, or recreation facilities. The City of Fontana states that they do privatize facilities, however, they did not indicate what facilities they privatize. These results have two indications: (1) that cities are reluctant to turn over control of major capital facilities to the private sector or, (2) that the facilities listed on the survey, airports, convention centers, solid waste facilities, etc., may not be applicable to cities, but are already owned by the private sector or the counties and the cities merely contract or have an agreement to use those privately own facilities.

When asked the principle reason for privatizing facilities, the City of Highland indicated it was a way of financing as the most important reason and the City of
Table 6

Services Contracted by the Inland Empire Cities in the Last Five Years

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicle Towing</td>
<td>56%</td>
</tr>
<tr>
<td>Recreation</td>
<td>13%</td>
</tr>
<tr>
<td>Utilities</td>
<td>25%</td>
</tr>
<tr>
<td>Transit</td>
<td>6%</td>
</tr>
<tr>
<td>Traffic Signal/Street Lighting</td>
<td>31%</td>
</tr>
<tr>
<td>Streets</td>
<td>31%</td>
</tr>
<tr>
<td>Solid Waste Collection</td>
<td>69%</td>
</tr>
<tr>
<td>Public Safety</td>
<td>31%</td>
</tr>
<tr>
<td>Parking Lots</td>
<td>6%</td>
</tr>
<tr>
<td>Housing</td>
<td>6%</td>
</tr>
<tr>
<td>Emergency Services</td>
<td>6%</td>
</tr>
<tr>
<td>Fleet Maint.</td>
<td>38%</td>
</tr>
<tr>
<td>Elderly Care</td>
<td>0%</td>
</tr>
<tr>
<td>Data Processing</td>
<td>38%</td>
</tr>
<tr>
<td>Airports</td>
<td>0%</td>
</tr>
<tr>
<td>Child Care</td>
<td>6%</td>
</tr>
<tr>
<td>Building/Grounds Maint.</td>
<td>88%</td>
</tr>
<tr>
<td>Administration</td>
<td>44%</td>
</tr>
</tbody>
</table>
Riverside indicated operating cost savings as the most important reason to privatize their facility. The City of Highland listed risk sharing as the least important reason to privatize their facility, whereas the City of Riverside listed capital cost savings as being their least important reason.

D. Sales of Assets: When asked if their governments participated in the sale of assets to the private sector for operation or liquidation, 25 percent responded yes and 63 percent responded no. Although two cities, Norco and Redlands, did not indicate this fact in the first question, perhaps because they were asked if they had sold assets in the last five years, and in fact they may have been sold prior to this time.

Of those cities that sold assets, the majority sold both buildings and land. The reasons given for the sale of assets were of the voluntary nature: (1) to recapture housing set aside funds for additional housing projects; (2) as a revenue enhancement; (3) bought for resale; and (4) because they were no longer required.

2. Advantages to Privatization

Contracting Services

Overwhelmingly, 88 percent of the respondent's named cost savings as the greatest advantage to privatization and 50 percent indicated that privatization provides services not otherwise available. (Table 7) The large response to cost saving reflects the responses world wide as most government organizations are saving thousands of dollars by using some form of alternative service delivery.
Table 7

<table>
<thead>
<tr>
<th>Advantages To Contracting Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Advantages</td>
</tr>
<tr>
<td>Solves Local Political Problems</td>
</tr>
<tr>
<td>Solves Labor Problems</td>
</tr>
<tr>
<td>Shorter Implementation Time</td>
</tr>
<tr>
<td>Sharing of Risk</td>
</tr>
<tr>
<td>Provide Services Not Otherwise Available</td>
</tr>
<tr>
<td>High Quality Service</td>
</tr>
<tr>
<td>Cost Savings</td>
</tr>
</tbody>
</table>

Privatizing Facilities

For privatizing facilities, again, cost savings were seen to be the most important, by 38 percent of the respondents. The other respondent's declined to answer this question or felt there was no advantages to privatizing facilities. Considering most respondent's have not used this aspect of privatization, perhaps they did not believe they had enough experience in this type of privatization to answer this question. (Table 8)

Asset Sales

Again, Thirty-one percent of the respondent's indicated cost savings as being the biggest advantage to asset sales and 13 percent claiming shorter implementation time.
However, because not many Inland Empire cities have utilized asset sales there were few responses. (Table 9)

3. Disadvantages of Privatization

Contract Services

Even though 88 percent of the respondent’s said cost saving was the biggest advantage to contracting out, 75 percent said loss of control was the biggest disadvantage or impediment to contracting services. Thirty-eight percent indicated union or employee resistance, politics, and lack of belief in benefits as being disadvantages to contracting services. (Table 10)
Table 9

<table>
<thead>
<tr>
<th>Advantages to Asset Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Enhancement</td>
</tr>
<tr>
<td>No Advantages</td>
</tr>
<tr>
<td>Solves Local Political Problems</td>
</tr>
<tr>
<td>Solves Labor Problems</td>
</tr>
<tr>
<td>Shorter Implementation</td>
</tr>
<tr>
<td>Time</td>
</tr>
<tr>
<td>Sharing of Risk</td>
</tr>
<tr>
<td>Provide Services Not</td>
</tr>
<tr>
<td>Otherwise Available</td>
</tr>
<tr>
<td>High Quality Service</td>
</tr>
<tr>
<td>Cost Savings</td>
</tr>
</tbody>
</table>

Privatizing Facilities

Reflecting the pattern of the advantages, so go the disadvantages with 44 percent of the respondent's stating *loss of control* as being the largest impediment to privatizing facilities and 31 percent claimed a lack of belief in the benefits as the second most important disadvantage to privatizing facilities. (Table 11)

Asset Sales

Again, loss of control was indicated as the largest impediment in asset sales according to 25 percent of the respondent's. Nineteen percent believed bureaucratic inertia, a lack of awareness of methods of privatization, and a lack of belief in benefits as being the other disadvantage to asset sales.
A distinct pattern between the advantages and disadvantages is obvious. The highest rated advantage for all three types of privatization is *cost savings*. On the other hand, the highest rated disadvantage for all three types of privatization is *loss of control*. As stated previously, when a city contracts out a service it loses a degree of direct control over the activity in order to benefit from the lower budgetary costs associated with going private. As evidence mounts on the cost savings of contracting out, local governments are rethinking the way in which publicly provided services are
produced and as this survey indicates, the cost saving means more to these government organization's than does the ability to control the service delivery.

4. **Reason for Lack of Interest in Privatization**

Because all respondents use some form of privatization it is apparent that there is an interest in using this alternative method of service delivery. Therefore, there were only four responses when asked why there was a lack of interest in privatization. No apparent cost savings or benefits were seen to be the reason for the lack of interest.
The City of Grand Terrace, a contract city, oddly enough indicated their lack of interest in privatization was due to a lack of knowledge about how to privatize.

5. **Reason for Interest in Privatization**

Internal attempts to decrease the cost of service delivery was the overwhelming response, 81 percent, when the respondent's were asked what urged their organization into studying the feasibility of adopting private service delivery alternatives. External fiscal pressures, such as Proposition 13 was a close second choice at 69 percent. (Table 12)

**Table 12**

<table>
<thead>
<tr>
<th>Reason for Interest in Privatization</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other</td>
<td>19%</td>
</tr>
<tr>
<td>Increasing Concerns about Government Proposals Presented by Service Providers</td>
<td>13%</td>
</tr>
<tr>
<td>Active Citizen Groups Favoring Privatization Change in Political Climate State and Federal Mandates Internal Attempts to Decrease Costs External Fiscal Pressures (Prop. 13)</td>
<td>81%</td>
</tr>
</tbody>
</table>

Opposition from local government line employees was the obstacle met with 50 percent of the respondent's in the course of their agency's attempt to adopt various
private alternatives for service delivery. One respondent volunteered that alternative service delivery was not always cost effective.

6. **Evaluation of Privatization:**

When asked who *inside* the organization is involved in the early stages of evaluating the feasibility of private service delivery alternatives, 94 percent of the respondent's indicated the department heads are involved in the early stages, 81 percent indicated the City Manager/CEO were involved, and 63 percent indicated management and/or budget analyst's are involved in the early stages. (Table 13)

**Table 13**

<table>
<thead>
<tr>
<th>Who Inside the Organization Evaluates the Feasibility of Privatization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elected Officials</td>
</tr>
<tr>
<td>Line Employees</td>
</tr>
<tr>
<td>Procurement Officer</td>
</tr>
<tr>
<td>Attorney</td>
</tr>
<tr>
<td>Finance Officer</td>
</tr>
<tr>
<td>Department Heads</td>
</tr>
<tr>
<td>Management/Budget Analyst</td>
</tr>
<tr>
<td>Assistant City Manager</td>
</tr>
<tr>
<td>City Manager/CEO</td>
</tr>
</tbody>
</table>

When asked who *outside* the organization was involved in the early stages of evaluating the feasibility of private service delivery alternatives, 44 percent indicated that potential service deliverers and professionals with expertise in particular service areas are involved in the early stages of feasibility evaluation.

27
Sixty-nine percent of the respondent's answered in the affirmative when asked if their organization used any techniques for systematically monitoring alternative service delivery. The standard most often evaluated, as indicated by the respondent's, 63 percent cited cost and 56 percent cited compliance with delivery standards specified in the contract. (Table 14)

Table 14

<table>
<thead>
<tr>
<th>Techniques for Systematically Monitoring Alternative Service Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Compliance with Contract</td>
</tr>
<tr>
<td>Cost</td>
</tr>
<tr>
<td>Citizen Satisfaction</td>
</tr>
</tbody>
</table>

The techniques most commonly used by the Inland Empire cities to monitor alternative service delivery is by conducting field observations and by analyzing data/records to assure that contracting out the various services meets the goals instituted at the onset of the privatization program. Forty-four percent of the respondent's indicated that they monitor citizen complaints. Only one city, Loma Linda, said they conduct a citizen survey to monitor the quality of the service delivery. (Table 15)

7. Effect of Recession on Privatization.

The section of the study was to see how the Inland Empire cities are handling the demand from services during the recent recession. When asked if the recession has
caused their government organization to look into increasing or considering privatized services. 50 percent of the respondent’s said yes. Of those 50 percent respondents, 44 percent said they were going to increase or consider privatizing building or ground’s maintenance. Twenty-five percent indicated they would increase or consider privatizing fleet or vehicle maintenance and recreation, parks, culture activities, convention halls, and stadiums.

Table 15

<table>
<thead>
<tr>
<th>Techniques Most Commonly Used To Monitor Alternative Service Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analyzing Data/Records</td>
</tr>
<tr>
<td>Conducting Field Observations</td>
</tr>
<tr>
<td>Monitoring Citizen Complaints</td>
</tr>
<tr>
<td>Conducting Citizen Surveys</td>
</tr>
</tbody>
</table>

When asked if the recession has caused their government organization to look into increasing or considering privatizing facilities, 81 percent said no. The two cities responding in the affirmative indicated that they are considering to privatize their stadiums, convention halls, or recreation facilities.

When the same question was asked in regard to asset sales, 69 percent said the recession did not cause their government organization to increase or consider the sale of assets. Of the 25 percent that responded in the affirmative, 19 percent indicated that their government organizations were considering the sale of land and buildings.
8. The Effect of Privatization of Personnel.

The biggest fear of the employee union groups is that of job losses with the establishment of privatization. Public employees and their unions fear job loss and pressure for reduced wages from competitive contracting. When the respondent's were asked if their governments' decision to privatize services displaced any employees, both full-time and part-time, 75 percent said no. Of those who said yes, the City of Redlands indicated they had four employees displaced by their recent decision to contract the street sweeping services. The City of Upland said their decision to privatize services displaced twelve full-time employees.

CONCLUSION

Traditionally, the public sector has delivered services through its own departments, thus having the control over the process. However, as evidence mounts on the cost savings of contracting out, local governments are rethinking the way in which publicly provided services are produced. The Inland Empire study supported the conclusions found in most nationwide studies maintaining the reason to contract services is to provide services at a cost savings. However, the Inland Empire cities appear to be willing to accept a sub-standard quality in service to achieve this lower cost to the organization for the same service. The future for these and other local government organizations seems rather dismal with continued fiscal constraints from all levels of government, ailing national and state economies, and the growing number of service hungry citizens. For cities to survive they must need to provide the same services to the community at a lower cost to the organization. With tax hikes not being a viable option, government organizations are going to have to streamline and downsize their organization to become "a lean, mean, serving machine." As this report indicates,
one way of meeting the service demands as well as cut expenses are through privatization.

In deciding whether or not to contract out, local governments consider three sets of factors: the potential for reducing the costs of producing services, the fiscal pressures to reduce the costs of producing services, and the political inducements and obstacles to contracting out.24

Will privatization continue to grow? For some public services, yes; these services include postal services, garbage collection, road repairs, and ambulance service, just to name a few. Why will this trend continue? First, "there is money to be made and many entrepreneurial and expansion opportunities are available to individuals and firms; second, the world is becoming more and more technology-based. Third, as the U.S. becomes more service-oriented, the need for public services will outstrip local governments' capacity for privatization. Fourth, it brings opportunities for reduced costs and improved service quality. Fifth, there is a movement in the U.S. to reduce government bureaucracy and foster more private-sector involvement in public-sector services. Finally, privatization is a normal outgrowth of the free enterprise system, the best example of which exists in the U.S."25

Therefore, for the most part privatization will continue to grow and become even more popular in the future for those reasons previously stated. On a local level, some privatized services will turn a full circle and be provided once again by the public sector because of fraud, corruption, greed, abnormal profits, and a lower level quality in service that will force the service back in government's hands.

If privatization is to succeed, you need a very strong, healthy, and well-managed public sector. Privatization is essentially a public-private partnership. It is putting the business talent and drive of private enterprise at the disposal of the public. To get the most out of this partnership, each of the sectors should look at what it does the best,
and what roles it should take. For the most part, however, governments will become the procurer, not the provider, of services.
Appendix

The Use Of Privatization By The Public Sector:
A Focused Study On The Inland Empire Government Organizations

The purpose of the survey is to measure the extent to which the incorporated cities in the Inland Empire involve the private sector in the delivery of public services traditionally delivered solely by local government employees.

I. USE OF PRIVATIZATION

Which of these kinds of privatization has your government used in the last five years? (Check as applicable)

___ a. Contracting Out Services
   (The government contracts with private-sector organizations to provide a specific service, such as street sweeping, landscaping, emergency services, etc. instead of doing the work itself.)

___ b. Privatizing Facilities
   (A private-sector organization builds or acquires a facility such as a sewage treatment plant, and then owns and operates the facility for the government.)

___ c. Asset Sales
   (The government sells assets, such as loan portfolios, etc. to the private sector. The buyer may either liquidate the asset or operate it under the buyer's own auspices.)

A1. Services Contracted

Which services has your government contracted in the last five years? (Check as applicable)

___ a. Administration (legal, accounting, payroll, collections, etc.)
___ b. Buildings or grounds maintenance (including trees or plantings)
___ c. Child care or day care
___ d. Airports
___ e. Data processing
___ f. Elderly or handicapped care
___ g. Fleet or vehicle maintenance
___ h. Hospitals, health care, or emergency services
___ i. Housing or shelters
___ j. Parking lots or garages
___ k. Public safety or corrections
___ l. Solid waste collection or disposal
___ m. Streets and roads
___ n. Traffic signals or street lighting
___ o. Transit or mass transportation
___ p. Utilities
___ q. Recreation, parks, cultural activities, convention halls, stadiums
___ r. Vehicle towing or storage
A2. Principal Reason for Contracting Services

What was your government's principal reason for contracting these services? (Please rank from 1 to 4, 1 being most important reason and 4 being least important reason.

___ a. Cost Savings
___ b. Lack of staff
___ c. Insufficient facilities
___ d. Better services

B1. Privatization of Facilities

What facilities has your government privatized in the last five years? (Check as applicable)

___ a. Airports
___ b. Correctional facilities
___ c. Hazardous-waste facilities
___ d. Hospitals or extended care facilities
___ e. Housing
___ f. Mass transportation or transit
___ g. Municipal buildings or garages
___ h. Pollution-control facilities
___ i. Roads, bridges or tunnels
___ j. Solid-waste or resources recovery facilities
___ k. Stadiums, convention, or recreation facilities
___ l. Street lights
___ m. Wastewater, sewers or treatment plants
___ n. Water mains, or treatment facilities

B2. Principal Reason for Privatizing Facilities

What was your government's principal reason for privatizing these facilities? (Please rank from 1 to 7, 1 being most important reason and 7 being least important reason.

___ a. Capital Cost Savings
___ b. Lack of expertise
___ c. Insufficient facilities
___ d. Operating cost savings
___ e. Means or financing
___ f. Better service
___ g. Risk sharing

C. Sales of Assets

1. Has your government participated in the sale of assets to the private sector for operation or liquidation?

___ Yes
___ No
2. What type of assets have been sold? (Check as applicable)

___ a. Land
___ b. Buildings
___ c. Loan portfolios
___ d. Recreation facilities
___ e. Means of financing
___ f. Hospital or health care facilities
___ g. Other (Please specify:)

3. What was your government’s reason for selling assets? (Please rank from 1 to 4, 1 being most important reason and 4 being least important reason.)

___ a. Assets are obsolete
___ b. Balance the budget
___ c. To improve services
___ d. Other (Please specify:)

II. ADVANTAGES TO PRIVATIZATION

What are the advantages of privatization through:

Contracting Services...(Check as applicable)

___ a. Cost savings
___ b. Higher-quality service
___ c. Provides services not otherwise available
___ d. Sharing of risk
___ e. Shorter implementation time
___ f. Solves labor problems
___ g. Solves local political problems
___ h. None

Privatizing Facilities...(Check as applicable)

___ a. Cost savings
___ b. Higher-quality service
___ c. Provides services not otherwise available
___ d. Sharing of risk
___ e. Shorter implementation time
___ f. Solves labor problems
___ g. Solves local political problems
___ h. None

Asset Sales...(Check as applicable)

___ a. Cost savings
___ b. Higher-quality service
___ c. Provides services not otherwise available
___ d. Sharing of risk
___ e. Shorter implementation time
___ f. Solves labor problems
___ g. Solves local political problems
___ h. None
III. DISADVANTAGES TO PRIVATIZATION

1. What are the disadvantages or impediments of contracting services? (Check as applicable)

   ____ a. Bureaucratic inertia
   ____ b. Loss of control
   ____ c. No interest by the public sector
   ____ d. Union or employee resistance
   ____ e. Lack of awareness of methods of privatization
   ____ f. Need for enabling legislation
   ____ g. Politics
   ____ h. Lack of belief in benefits
   ____ i. No confidence in the private sector
   ____ j. Public opinion

2. What are the disadvantages or impediments of privatizing facilities? (Check as applicable)

   ____ a. Bureaucratic inertia
   ____ b. Loss of control
   ____ c. No interest by the public sector
   ____ d. Union or employee resistance
   ____ e. Lack of awareness of methods of privatization
   ____ f. Need for enabling legislation
   ____ g. Politics
   ____ h. Lack of belief in benefits
   ____ i. No confidence in the private sector
   ____ j. Public opinion

3. What are the disadvantages or impediments to selling assets? (Check as applicable)

   ____ a. Bureaucratic inertia
   ____ b. Loss of control
   ____ c. No interest by the public sector
   ____ d. Union or employee resistance
   ____ e. Lack of awareness of methods of privatization
   ____ f. Need for enabling legislation
   ____ g. Politics
   ____ h. Lack of belief in benefits
   ____ i. No confidence in the private sector
   ____ j. Public opinion

IV. REASONS FOR LACK OF INTEREST IN PRIVATIZATION

1. If your government has not used privatization in the last five years, and does not plan to do so in the next five years, why not? (Check as applicable)

   ____ a. Ideological opposition
   ____ b. Lack of confidence in the private providers by management
   ____ c. Lack of confidence in private providers by the public
   ____ d. Lack of enabling legislation
   ____ e. Lack of interest by the private sector
f. Lack of knowledge about how to privatize

V. REASONS FOR THE INTEREST IN PRIVATIZATION

1. Which of the following urged your local government to study the feasibility of adopting private service delivery alternatives or "privatizing" in the last five years? (Check as applicable)

   a. External fiscal pressures (Prop. 13)
   b. Internal attempts to decrease costs of service delivery
   c. State or federal mandates tied to intergovernmental financing
   d. Change in political climate emphasizing a decreasing role of government
   e. Active citizen groups favoring privatization
   f. Unsolicited proposals presented by potential service providers
   g. Increasing concerns about government liability
   h. Other (Please specify:)

2. Please indicate which of the potential obstacles listed below, if any, have been encountered in the course of your government's attempts to adopt various private alternatives for service delivery. (Check as applicable)

   a. Opposition from citizens
   b. Opposition from elected officials
   c. Opposition from local government line employees
   d. Opposition from department heads
   e. Restrictive labor contracts/agreements
   f. Legal constraints
   g. Insufficient supply of competent private deliverers
   h. Lack of staff with sufficient contract management expertise
   i. Lack of precedent
   j. Institutional rigidities
   k. Other (Please specify:)

VI. EVALUATION OF PRIVATIZATION

1. Who inside your government organization is involved in the early stages of evaluating the feasibility of private service delivery alternatives? (Check as applicable)

   a. City Manager/CEO
   b. Assistant City Manager/CEO
   c. Management and/or budget analyst
   d. Department heads
   e. Finance/Accounting officer
f. Attorney
__
__
__
__
__

Attorney
Procurement/purchasing officer
Line employees
Elected official
Other (Please specify:)

2. Who outside your government organization is involved in the early stages of evaluating the feasibility of private service delivery alternatives? (Check as applicable)

a. Potential service deliverers
b. Professionals with expertise in particular service areas
c. Consultants
d. Service recipients/consumers
e. Citizen Advisory Committees
f. City Managers/CEOs of other local governments who are experienced using private alternatives
g. State level agencies, leagues, or associations
h. Other (Please specify:)

3. Does your government use any techniques for systematically monitoring alternative service delivery used by your government?

___ YES
___ NO

If "YES,"

A. Which of the following aspects of service delivery are evaluated? (Check as applicable)

a. Citizen satisfaction
b. Cost
c. Compliance with delivery standards specified in the contract
d. Other (Please specify:)

B. What techniques are used to monitor the above aspects of service delivery? (Check as applicable)

a. Conducting citizen surveys
b. Monitoring citizen complaints
c. Conducting field observations
d. Analyzing data/records (i.e., demographic/finance data)
e. Other (Please specify:)

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VII. EFFECT OF RECESSION ON PRIVATIZATION

1. Has the recent recession caused your government organization to look into increasing or considering privatized services?

    ___ Yes
    ___ No

If "Yes" which services, or additional services, has your government thought about privatizing? (Check as applicable)

    ___ a. Administration (legal, accounting, payroll, collections, etc.)
    ___ b. Buildings or grounds maintenance (including trees or plantings)
    ___ c. Child care or day care
    ___ d. Airports
    ___ e. Data processing
    ___ f. Elderly or handicapped care
    ___ g. Fleet or vehicle maintenance
    ___ h. Hospitals, health care, or emergency services
    ___ i. Housing or shelters
    ___ j. Parking lots or garages
    ___ k. Public safety or corrections
    ___ l. Solid waste collection or disposal
    ___ m. Streets and roads
    ___ n. Traffic signals or street lighting
    ___ o. Transit or mass transportation
    ___ p. Utilities
    ___ q. Recreation, parks, cultural activities, convention halls, stadiums
    ___ r. Vehicle towing or storage

2. Has the recent recession caused your government organization to look into increasing or considering privatizing facilities?

    ___ Yes
    ___ No

If "Yes" which facilities, or additional facilities, has your government thought about privatizing? (Check as applicable)

    ___ a. Airports
    ___ b. Correctional facilities
    ___ c. Hazardous-waste facilities
    ___ d. Hospitals or extended care facilities
    ___ e. Housing
    ___ f. Mass transportation or transit
    ___ g. Municipal buildings or garages
    ___ h. Pollution-control facilities
    ___ i. Roads, bridges or tunnels
    ___ j. Solid-waste or resources recovery facilities
    ___ k. Stadiums, convention, or recreation facilities
    ___ l. Street lights
    ___ m. Wastewater, sewers or treatment plants
    ___ n. Water mains, or treatment facilities
3. Has the recent recession caused your government organization to look into increasing or consider the sale of assets?

____ Yes
____ No

If "Yes" which assets, or additional assets, has your government thought about selling? (Check as applicable)

____ a. Land
____ b. Buildings
____ c. Loan portfolios
____ d. Recreation facilities
____ e. Means of financing
____ f. Hospital or health care facilities
____ g. Other (Please specify: ____________________________

VIII. EFFECT OF PRIVATIZATION ON PERSONNEL

1. Has your government's decision to privatize services displaced any employees within your organization?

____ YES
____ NO

If "yes," what was the approximate number of employees displaced.

____ Full-time
____ Part-time

2. What is the population of your city? __________________

Thank you for your cooperation and assistance in filling out this survey. If you would like to receive a copy of the results of this survey, please indicate below.

____ Yes
____ No

Name: __________________
City: __________________
Title: __________________
END NOTES


2 Privatization 1992, p. 6

3 Privatization 1992, p. 6


5 Campell, 4


7 Ross


9 David Seader, "Privatization and America's Cities," Public Management, 68 (December, 1986), 7

10 Ross

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