

# Local Public Services in Wisconsin: Alternatives for Municipalities

**Steven C. Deller**, Professor and Community Development Economist, Department of Agricultural and Applied Economics, UW-Madison/Extension

**David G. Hinds**, Professor, Local Government Center, UW-Extension

**Donald L. Hinman**, Assistant Professor and Director, Center for Economic Development, UW-Superior/Extension

## Fact Sheet #5: Administering/Bidding Contracts and Monitoring Contractor Performance

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

### I. Overview

### II. Comparison of Service Production Methods and Incidence of Privatization

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

### III. Comparison of Service Production Methods and Incidence of Privatization

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

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

### V. Administering/Bidding Contracts and Monitoring Contractor Performance

*A total of 452 cities and villages in Wisconsin were surveyed on the extent to which local public services are produced by municipal employees, have been privatized (contracted out to private firms) or are produced by some other method. Municipalities responded with information about 82 services in seven categories. This fifth fact sheet in the series reports the results of municipal responses to questions on administering and bidding of contracts, and on monitoring contractor performance.*

### *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 of services.

Ninety-one percent of municipalities indicated that they bid contracts competitively. An indication that competition exists for some services is that 81 percent of municipalities that engage in bidding

indicated that a sufficient number of bids were received.

### *Employee Bidding*

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 Wisconsin 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, but 41% state that employee bidding has never resulted in the awarding of a contract (Figure 1). With less than 10 percent of Wisconsin municipalities having had any successful experience with this service production option, it will be worthwhile to closely observe the experiences of the few municipalities that experiment with public employee contract bidding in Wisconsin and elsewhere.

### *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. In addition to profiling the extent of privatization, Fact Sheets #2 and #3 present results on what types of services exhibit the largest incidence of intergovernmental cooperation and contracting

### *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 or other entity 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 2).

### *Cost Issues*

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 regularly 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 “in some instances.” (Figure 3). 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.

### *Impact on Employees*

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 4). The next most likely occurrences were that the municipal workers retired (19 percent) or went to work for the private contractor (6 percent). Thus workers were seriously adversely affected, by being laid off, in only a few municipalities (6 percent)

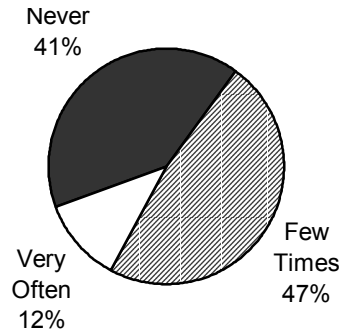
### *Public Employee Union Issues*

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 the municipalities. 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 5)

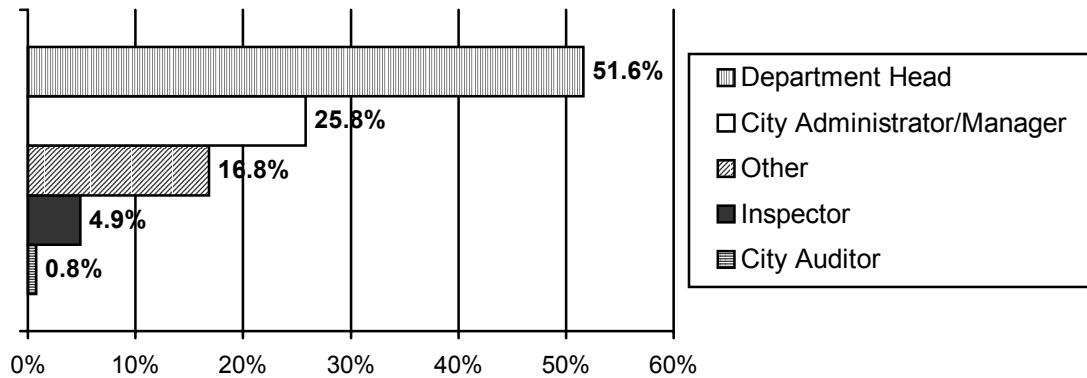
Employee wages and benefits are also important issues in the privatization decision. People that express concerns about contracting public services frequently cite lower wages and benefits of private firms as the main reason that private firms are able to offer lower cost services, resulting in a detrimental 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. Figure 6 shows 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 firms offered either better benefits or about the same level as the city or village (Figure 7).

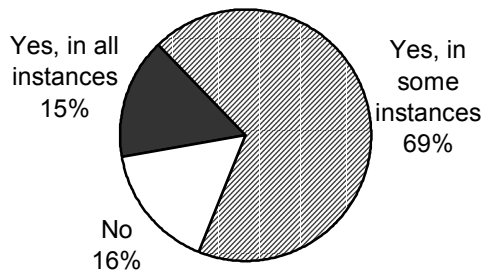
**Figure 1. If Municipal Employees Have Bid on Contracts, Have They Been Successful?**



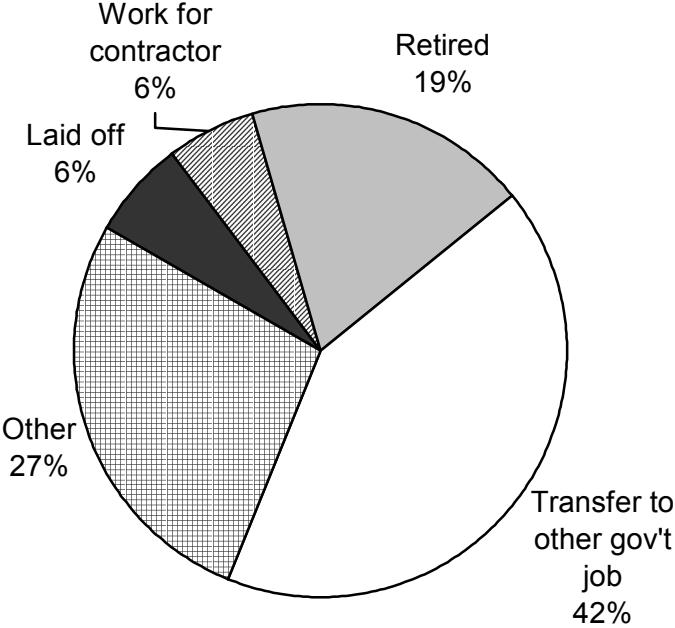
**Figure 2. If a Contract Monitoring System Is in Place, Who Is Responsible For Monitoring Contractor Compliance?**



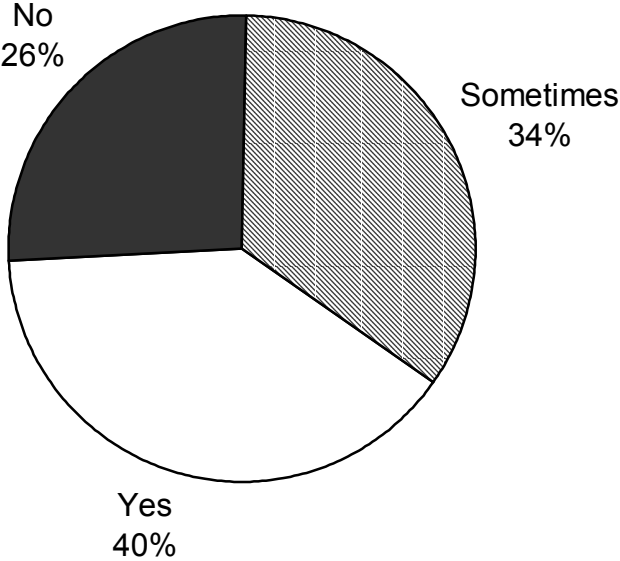
**Figure 3. Has Privatization or Contracting Resulted in Cost Savings?**



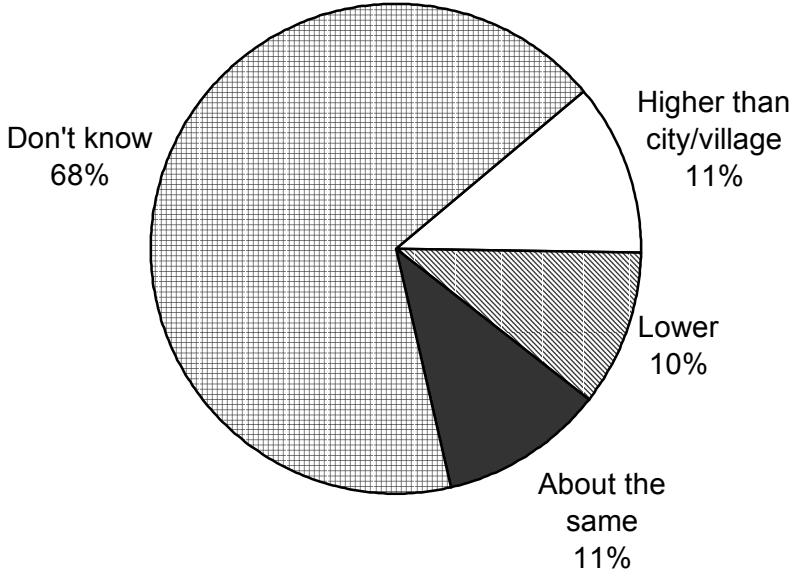
**Figure 4. Impact on Employees Displaced Due to Privatization or Contracting**



**Figure 5. In Municipalities Where Employees Are Unionized, Does Contractor for Private Services Recognize Union?**



**Figure 6. If City/Village Has Contracted for Services,  
How Do Private Firm Employee Wages Compare to City/Village Wages?**



**Figure 7. If City/Village Has Contracted for Services,  
How Do Private Firm Employee Benefits Compare to City/Village Benefits?**

