



Dr. Merl Hackbart is Special Assistant to the Chancellor, and Professor of Finance and Public Administration at the University of Kentucky. He also has served as State Budget Director for Kentucky.

Dr. Hackbart currently serves as chairman of the UK Lexington Campus Restructuring and Realignment Task Force and the UK KERA Task Force.

SECOND CONCURRENT SESSIONS

Thursday, September 16, 1993

Dr. Merl M. Hackbart, Special Assistant to the
Chancellor, University of Kentucky

PRIVATIZATION OF TRANSPORTATION FUNCTIONS

"Privatization" has emerged as the new management theme for state and local government in the 1990s. The focus on privatization as an alternative to traditional ways and means of government service delivery also has begun in transportation cabinets across the country. Consideration of privatization has, logically, raised a series of policy and operational issues for public officials. Among these are issues of appropriate privatization options, guidelines for privatization efforts and concerns regarding the "delegation" of program responsibility.

As a concept, privatization means different things to different people. The definition which I prefer suggests that privatization involves the transfer of public functions, activities or assets to private vendors (sector) as a means of providing public services. The typical goal of such a transfer or "privatization" effort is to improve the efficiency of public service delivery. It is often assumed that the private sector has an efficiency advantage due to the fact that private firms may avoid the formalized policy and procedural guidelines, cross-cutting goals, and bureaucratic characteristics of public agencies. Such characteristics are often associated with public programs due to the nature of public programs and may not always be avoided with privatization. However, the private sector may still be able to deliver services more efficiently than a public sector agency. The possibility of such greater efficiencies appears to drive privatization efforts among state and local governments.

In my discussion, I would like to consider three topics associated with the privatization of public (and transportation) services. These are:

(1) the emergence and growth of privatization, (2) privatization options and (3) guidelines for the implementation of privatization policies. Hopefully, the discussion of these issues will provide the background for consideration of privatization as an option for state and local government transportation services.

Let me begin by providing an overview of recent trends and privatization efforts. Numerous privatization efforts have been undertaken in the United States and throughout the world. Among such activities are the following:

- Great Britain privatized \$10 billion of regional electrical companies in 1990.
- Great Britain is considering privatizing one seaport.
- Numerous states have established special commissions on government efficiency which are considering privatization options.
- The Gore Commission has recommended numerous privatization initiatives as a means of enhancing the efficiency of the federal government.

While the federal, state, and local governments have recently increased their consideration of privatization, it is not a new concept. State and, especially, local governments have privatized services for several years. Garbage collection, public transit, parks management, and food and other services have been privatized for decades. The more recent high profile efforts have focused on privatizing services in new program areas such as the delivery of social services, health services, and "generic" administrative functions. As a consequence, new issues have arisen regarding the appropriateness of privatization in certain service areas.

A number of approaches has been utilized to meet privatization goals. Among these are contracting out (which is the most common privatization vehicle), voucher systems (where the service is delivered by a private vendor upon presentation of a voucher), franchises (providing exclusive service delivery rights to private firms), deregulation, service shedding (the public sector simply gets out of the service delivery business) and selling assets to the private sector. The use of one or several of these privatization options might be used simultaneously as part of a broader private/public partnership initiative.

Privatization decisions regarding whether to privatize, method or methods of privatization, and privatization procedures are often restricted by statute, ordinance or regulation. Such decisions also may be guided by reasonable management guidelines. Such management guidelines tend to be generic in nature and apply universally to state and local governments considering privatization options. The following list of privatization "management" guidelines is not exclusive but identifies some of the key issues to consider during the evaluation of the privatization option:

• Assess service delivery costs with privatization option as compared to public sector service delivery. (In this assessment, consider costs associated with the public sector's need to be accountable under both options which might change estimated costs of privatization.)

• Assess the legal and economic feasibility of privatizing the service delivery function.

• Develop a clear, concise statement or definition of the service or services to be delivered (privatized). The potential vendors must know precisely what is expected of them if they are to make effective bids and carry out the services desired (and be held accountable for the delivery of those services.)

• Develop plan to permit the public sector to deliver the service in the event that the privatization effort is unsuccessful. Such a back-up plan helps insure that privatization efforts will be competitive and that the private vendor does not gain a "monopoly" position leading to higher service delivery costs.

• Establish and define performance measures to use in judging the efficiency and effectiveness of private sector vendors.

• Develop coordination and responsibility plans if multiple governments (and government agencies) are involved in the delivery of the service to be privatized.

As indicated, privatization is emerging as a valued option for the delivery of public services when constrained public resources demand efficient and effective service delivery. Such efforts are, however, constrained by laws, ordinances, and regulations. Initiatives also should be guided by reasonable administrative and policy guidelines as well. Effective adherence to such guidelines and management principles can greatly enhance the chances for success of privatization efforts by state and local governments.