



# NEW FORMS OF PROGRAM DELIVERY

## A FOCUS ON CONTRACTING

RICHARD CHACKERIAN & WILLIAM TANKERSLEY

**A**lternative methods to deliver government services have become increasingly important. These alternatives differ significantly from traditional agency delivery. Rather than utilizing government employees and agency resources directly in the production and delivery of government services to clients, alternative arrangements are made. Contracting is only one of a number of important alternatives. The major alternative modes of delivery include:<sup>1</sup>

1. Franchise agreements,
2. Grants and subsidies,
3. Vouchers,
4. Regulation and tax incentives, and
5. User fees and demarketing.


In the following sections each of these methods will be discussed briefly. This will be followed by a detailed discussion of contracting, the policy environment out of which this practice has developed, the contexts within which it is likely to be most effective, and finally, case studies of its implementation in Florida.

### FRANCHISE AGREEMENTS

Franchising is the award to a private entity of the right to provide a service within specified geographical areas. After the award of a franchise the government role generally is restricted to regulation, with private citizens dealing directly with the franchisee, paying it for services received. The use of the franchise for delivery of services to citizens is based on the assumption that private entities operate more efficiently than government, although to be effective in this respect, savings must outweigh added government oversight and monitoring costs. In some instances franchise fees are charged to cover these expenses.

Within the franchise area the government may impose price controls, service standards, and the requirement that the franchisee offer service to all potential customers whether or not the extension of service to an individual customer is economically justifiable. The franchise may be exclusive or non-exclusive, a decision

CHAPTER  
16



that probably should be made on the basis of the presence, or absence, of significant economies of scale. With non-exclusive franchises the franchisee may be faced with competition from other firms providing the same service within the same area. Such non-exclusive franchises provide the expected benefits thought to accompany competitive markets. Exclusive franchises, on the other hand, can offer benefits induced by free markets only if they are renewed at frequent intervals and then are competitively awarded.

### GRANTS AND SUBSIDIES

Grants and subsidies to non-government providers may keep a program active while avoiding the requirement that government assume the entire responsibility for the service. They are particularly appropriate where there are high start-up costs or where it is important to reduce user fees to something less than what would otherwise be the average cost for the service. The first case may call for a one-time start-up grant; the second may be addressed by annual subsidies to help meet recurring costs. In some instances, it is more appropriate for the government agency to subsidize private operations with equipment loans, office space, or other in-kind contributions.

Grants and subsidies are also useful in connection with the provision of unique, poorly understood services where there is uncertainty about quality and other service requirements. In such circumstances accountability is established by earmarking funds for specific projects, requiring periodic reports and independent audits, and relying upon trustworthy relationships and professional standards of the grantee.

### VOUCHERS

Voucher systems have been used by government agencies primarily in health care, food distribution, and higher education. In such systems, the government provides citizens with coupons that can be used as restricted currency to purchase specified goods or services. The coupons are collected by the supplier of the good or service and later redeemed for cash upon presentation to the government agency.

Vouchers enable eligible individuals to obtain goods or services while permitting the voucher recipient relatively wide individual choice of what, where, how much, and from whom to purchase. Within the constraints imposed upon the use of the voucher, the system assumes individuals are informed consumers capable of making intelligent choices in the marketplace. And, if there is a reasonable number of suppliers active in the market, clients will reap the benefits of market competition. Those suppliers

who provide poor quality goods or services will be spurned. It is presumed that efficient and responsive service delivery will result.

### **REGULATION AND TAX INCENTIVES**

The regulation and tax incentive approach to service delivery should encourage individuals and organizations in the private sector to meet community needs. Here, undesirable behaviors are simply ruled unlawful, or regulation and taxation can effectively be used to raise the costs of undesirable behavior while making desirable behavior less costly.

Regulatory examples include zoning of land, loosening or restricting vocational and professional licensing requirements, changing adoptive parent eligibility requirements, and modifying fire and safety codes. Caution and good judgment are imperative here since regulatory changes may result in exposure to hazards or other undesirable conditions. In many cases such undesirables may be quite remote yet extremely costly to avoid. The goal is to enhance service delivery by reaching an optimal balance between underprotection and overprotection.

The concept of tax incentives is fairly straightforward: tax credits, exemptions, deferrals, and deductions encourage specified behaviors; tax penalties along with disallowance of exemptions, deferrals, and deductions act as disincentives. Tax incentives tend to become complex, partly due to the pre-existing complexity of the tax structure within which they must operate and partly due to the fact that while tax changes do affect specific behaviors, they may also have important budgetary implications reaching far beyond the specific service delivery concern. Nonetheless, tax incentives have been used effectively to encourage private organizations and individuals to make capital investments, expand research and energy conservation efforts, employ new workers, and to provide health care, day care, and dial-a-ride programs.

### **USER FEES AND DEMARKETING**

User fees can have at least two purposes with respect to the delivery of government services: (1) to raise revenue and (2) to adjust the demand for services. In the first instance, user fees can be used to finance specific services partially or fully. Here fees give an indication of the level of demand for the service rendered; and, if the fee approximates at least the cost of production, continued demand indicates that expansion of the service should be considered. Likewise, since users incur costs under this method of service delivery, they can be expected to adjust their demand for the service to match the value they set on the service. When user fees replace financing from general revenues, individuals tend to reduce usage

from the previous level. This affords government the opportunity to reduce costs by reducing service delivery.

Demarketing of a service can be important also. First, the government agency may simply attempt to lower total demand for a specific service. In this case, user fees may be combined with public education campaigns and other marketing efforts to encourage citizens to reduce their demand. User fees may be combined with educational and demarketing campaigns to reduce consumer demand during peak load periods. This type of demand adjustment can be particularly useful in public transportation, and electric and water utilities. Finally, demarketing, even without user fees, can significantly reduce government costs by encouraging carpooling, health maintenance, and reduction in careless and wasteful use of government-provided services.

Each of these methods is widely used by the governments of Florida. At the local level, franchises, regulation, and contracting are widely used. The state government depends less heavily on franchises, but uses regulation, contracting, and tax incentives extensively.

Recent data suggest the importance of alternative delivery systems within Florida. A report issued by the state Office of the Auditor General on the Florida Department of Health and Rehabilitative Services (HRS) revealed significant contracting out for service delivery during the 1987-88 fiscal year. The department entered into 6,642 contracts with outside parties totaling approximately \$1.15 billion (Auditor General 1990a). By 1993, HRS contracts reached \$2.037 billion (HRS 1993). A 1986 survey which included responses from 163 Florida cities and counties, showed that 31% used some form of alternative delivery system for the elderly. Twenty percent utilized alternative delivery for drug and alcohol treatment, 18% for operation and management of mental health facilities, and 17% for provision of emergency medical services (Law and Economics Center 1987, 46-48).

## THE POLICY ENVIRONMENT, PRIVATIZATION, AND CONTRACTING OUT

Contracting for services has a long history within government. This method is receiving presently a great deal of attention because of its intrinsic link to privatization, that is, utilizing private sector provision and/or production in place of the government. Contracting is the most common form of privatization, a form of government action that is somewhat controversial and widely discussed in policy circles (Reh fuss 1989).

The current interest in privatization within the State of Florida emerges from the public demand that government costs be stabilized without compromising the service quality. These demands originated in the stagflation of the 1970s and have been reinforced by supply side economics, supply side management, and austere fiscal conditions (Chackerian, 1990).

The 1980 Reagan presidential landslide brought with it a government philosophy that called for shifting national programs to state and local government and to the private sector. This philosophy was based on the assumptions that government was too large, too able to maintain itself, and inefficient (Chackerian 1990). Based on an overwhelming victory at the polls, the new administration claimed a "budget mandate" which resulted in changed national government spending priorities. The program promised a balanced budget and included three initiatives: severe cuts in domestic spending, the biggest tax cut in the history of the country, and increased military spending. The tax cut and balanced budget, dubbed "supply side economics," would stimulate savings and investment to the point that an improved economy would result (Shuman 1984). Critics, however, have described the package as "creat[ing] budget deficits which mortgaged a balanced budget for the decade of the 1980's" (p. 246).

Efforts to control the burgeoning budget deficit resulted in 1985 in the Gramm-Rudman-Hollings bill, which called for targeted reductions in the national budget deficit and for mandatory sequester, that is, across-the-board cuts if Congress failed to meet reduction targets (Leloup et al. 1987; Havens 1986). The original deficit constraints were not met and were actually loosened somewhat by 1987 legislation (Bowsher 1990, 397-414). Deficit reduction became a major issue on the Clinton presidential campaign and one of the central issues of his presidency. It is likely that across the nation the pressure to reduce government costs while maintaining the quality of public services will continue. Florida is no exception to this trend. The 1990 Chiles campaign for governor made this a centerpiece. The state budget adopted in early 1991 was the leanest since the early recession budgets of the 1970s, and by the 1993 legislative session cuts in real state government purchasing power continued. "Supply side management," the other force driving the interest in privatization, emerges rather directly from the assumptions supporting supply side economics (Chackerian 1990). The supply side manager has been described as:

1. more interested in line or operating activities than in staff functions;

2. more likely to view government service as a temporary tour of duty or as a stage in a career than as a lifetime profession;
3. more interested in "bottom line" tangible programmatic results than in process or system maintenance values; and
4. more executive centered than congressionally oriented or clientele focused (Carroll 1985).

"Demand side" managers, on the other hand, tend to be:

1. more interested in program design, policy analysis, and broad policy formulation and often attracted to staff rather than line function;
2. more concerned with process values and consensus building and risk aversion; and
3. comfortable with direct contacts with congressional staff and interest groups (Carroll 1985).

"The [Reagan] administration's supply-side management strategy [was]...particularly pronounced in intergovernmental relations. The primary objective [was]...to reduce the financial and programmatic dependency of state and local governments on the federal government..." (Carroll 1985, 805). This thrust was accompanied by a shift of regulatory authority to state and local government entities, by an emphasis on block grants in place of categorical grants, and by attempts at systematic reduction in federal aid.<sup>1</sup> Although seeming to produce somewhat of a "Catch-22" bind for state and local governments by saddling them with more responsibility while removing financial support, the supply-side management argument is that reduced federal regulations allow more efficient, results-oriented state and local management which may lead to private sector initiatives (Chackerian 1990).

In summary, the stagflation of the 1970s, the impact and residual effect of the political and management orientation of the Reagan administration, and the current level of national budget deficits have contributed to an increased interest in privatization, not just as political philosophy, but also as a management technique for obtaining more cost efficient government programs. This policy environment has not been without effect upon policy makers within the State of Florida.

## CONTRACTING: ONE PRIVATIZATION ALTERNATIVE AMONG MANY

Kolderie (1986) suggests that privatization in the United States has simply become a new name for contracting. Privatization, however, is a much broader concept. To more clearly see the distinction between privatization and contracting, it is helpful to consider the roles that government may take.

We begin by distinguishing *provision* of a service from *production* of a service:

One distinct activity of government is to *provide* for its people. In other words: policy making, deciding, buying, requiring, regulating, franchising, financing, subsidizing.

A...distinctly separate activity of government may be to *produce* the services it decides should be provided. In other words: operating, delivering, running, doing, selling, administering (Kolderie 1986, 286).

While production is a fairly straightforward term, *provision* needs some amplification to differentiate it from production:

A service is publicly or socially *provided* (a) where the decision whether to have it...is a political decision, (b) when government arranges for the recipients not to have to pay directly for the service themselves, and (c) when the government selects the producer that will serve them.

...service is privately *provided* (a) where individuals and non-governmental organizations make their own decisions whether or not to have it, (b) where, if they choose to have it, they pay for it in full out of their own resources,...and (c) where they select the producer themselves (Kolderie 1986, 286).

Service provision, therefore, relates to policy decisions about the service itself: is the service needed? Will the market allocate resources to it effectively without government intervention? Will there be fair distribution among citizens, etc.? On the other hand, service production implies the actual work involved in delivering the service. When policy makers consider privatizing, it is important that they distinguish options for the provision of the service from options for the production of that service.



The alternative to government provision and production is private sector provision and production. There are, however, intermediary cases: (1) government provision and production, (2) government provision and private sector production, (3) private sector provision and government production, or finally, (4) private sector provision and production, the case of pure private action (Kolderie 1986, 286). Privatization in the form of contracting, however, falls within alternative two. Also, it should be noted that some forms of contracting do not involve privatization at all. Government agencies may, and do, enter into contracts for the delivery of services with other government agencies acting as the provider.

### CONTRACTING OUT IN FLORIDA: AN IMPORTANT DELIVERY ALTERNATIVE?

Contracting has been distinguished from the more general concept, privatization, and it has been contrasted to five other important forms of alternative service delivery. A question remaining is, how prevalent is contracting out as a distinct form of service delivery?

More than one hundred services have been reported across the nation as being provided by private organizations under contract to municipalities (Savas 1990). The variety of these services is wide, ranging from child care to weed control. Included, among others, are adoption services, animal control, day care, family counseling, juvenile delinquency programs, management consulting, mosquito control, public relations, planning, and

training of municipal employees. The possibilities seem endless, particularly as general programs are disaggregated into functional specialties. Examples of such contracts for specialized support services include data processing, keypunching, microfilming, parking meter collections, and payroll processing.

While contracting has a long history in public works, transportation, and public utilities across the United States and has been heavily relied upon in support functions such as fleet maintenance, legal services, and labor relations, this mode of service delivery also has become widespread in the area of health and human

Table 16-1

#### CONTRACTUAL ARRANGEMENTS FOR SERVICE DELIVERY BY FLORIDA CITIES AND COUNTIES 1986

SERVICE AREA	TOTAL CONTRACTUAL ARRANGEMENTS	INTER- GOVERNMENTAL	PRIVATE SECTOR
Physical Environment/ Public Works	502	134	368
Transportation	394	96	298
Public Safety	357	208	149
Health and Human Services	323	161	162
Parks and Recreation	123	36	87
General/ Support Services	383	105	278

Source: Law and Economics Center 1987.

**Table 16-2**  
**CONTRACTUAL ARRANGEMENTS**  
**BY FLORIDA CITIES AND COUNTIES FOR THE**  
**DELIVERY OF HEALTH AND HUMAN SERVICES**  
**1986**

services. A 1988 nationwide survey of cities and counties conducted by the International City Management Association indicates that 26% of the 252 cities and counties reporting food programs for the homeless contracted with private firms for the delivery of this service. Thirty-four percent of the 383 drug/alcohol treatment programs were contracted out. Similarly, 34% percent of the 181 day care facilities, 35% of the 315 mental health/retardation programs or facilities, and 43 of shelters for the homeless involved contracting out (ICMA 1989, 7). Clearly, contracting has become an important delivery alternative across many programmatic areas.

SERVICE AREA	TOTAL CONTRACTUAL ARRANGEMENTS	INTER- GOVERNMENTAL	PRIVATE SECTOR
Hospitals	17	4	13
Mental Health Facilities	26	6	20
Day Care Facilities	22	5	17
Public Health	31	27	4
Nursing Home/Special Services	13	4	9
Child Welfare	15	8	7
Drug/Alcohol Treatment	28	9	19
Elderly Programs	30	5	25
Educational Services	18	15	3
Sanitary Inspection	31	29	2
Insect/Rodent Control	23	15	8
Animal Control	31	16	15
Animal Shelters	38	18	20

Source: Law and Economics Center 1987.

### FLORIDA CITIES AND COUNTIES

Political subdivisions within Florida are not different in this respect. A 1986 survey of Florida's cities and counties indicates that most have had some experience with privatization (Law and Economics Center 1987). Respondents reported more than 1,200 cases of contracting with private sector entities for service delivery. Based on data from 163 Florida cities and counties, a tabulation summarizing results from this survey is displayed in Table 16-1. The table shows the total incidents of contractual arrangements reported in each major service area. This total is disaggregated to show the number of contractual arrangements with private sector entities and the number of intergovernmental contractual arrangements. Clearly, it is an important alternative in the State of Florida.

Of special interest is the level of contracting for health and human services for Florida cities and counties. Based on the same 1987 survey, Table 16-2 displays the number of responding cities and counties in Florida that reported contracting out for such programs.

A more recent nationwide study of cities and counties and their usage of alternative delivery methods was conducted in 1988 (Kirchner & Karas 1989). A summary of Florida responses dealing with the delivery of cultural, recreational, and health services is presented in Table 16-3. Again, reported contractual arrangements are disaggregated to show private sector and intergovernmental arrangements.



STATE OF FLORIDA

Contracting at the state level is also an important service delivery alternative in Florida. As mentioned previously, the Florida Department of Health and Rehabilitative Services entered into some 6,642 contracts in fiscal year 1987-88. A listing of the distribution of these contracts by budget entity is shown in Table 16-4 (Auditor General 1990a, 23).

**Table 16-3**  
**CONTRACTUAL ARRANGEMENTS**  
**BY FLORIDA CITIES AND COUNTIES**  
**FOR THE DELIVERY OF CULTURE, RECREATION**  
**AND HEALTH SERVICES**  
**1988**

SERVICE AREA	TOTAL CONTRACTUAL ARRANGEMENTS*	INTER-GOVERNMENTAL	PRIVATE SECTOR
Mental health/retardation	8	7	2
Public health programs	17	16	4
Drug/alcohol treatment	14	12	5
Programs for elderly	19	16	7
Sanitary inspection	8	8	0
Insect/rodent control	9	8	1
Animal control	14	12	2
Homeless shelters	5	3	2
Food programs for homeless	8	6	3
Recreation services	12	7	6
Recreation facilities	12	6	7
Parks landscaping/maintenance	10	3	7
Cultural/arts programs	15	9	10
Libraries	9	8	1

\* The number of cities and counties reporting contractual arrangements does not equal the sum of intergovernmental and private sector arrangements because some reporting entities report both arrangements. Only cities and counties are included.

Source: Law and Economics Center 1987.

The State of Florida has also utilized contracting for service delivery in the area of corrections. Although the Department of Corrections has in the past established contracts with private providers for health care, food, and other services, it was not until October 1985 that the first contract for the private management of a state correctional facility occurred. At that time the department contracted for the management of one of its 37 community correctional centers and one of its 11 probation and restitution centers. Additionally, the department is presently considering contracting with private providers for the management of four new probation and restitution centers (Auditor General 1990b).

The Florida Legislature has added impetus to the move toward privatization of correctional services within the state. The 1989-90 General Appropriations Act and Letter of Intent authorized bids to be taken from private providers for the construction and operation of a 900-bed, single-cell correctional facility (Auditor General 1990b, 7). The 1990 session renewed this authorization and provided that two additional prison facilities of the same order of magnitude be contracted out. Private providers are expected in each case to construct, as well as operate, the new prison facilities.

## ISSUES INVOLVED IN THE DECISION TO CONTRACT

There are, of course, many issues that must be resolved in the decision to contract. For present purposes, four classes of factors will be considered. First, consideration is given to the legal constraints that must be faced; second, characteristics of the administrative infrastructure itself are discussed; third, microeconomic factors are considered. Finally, program technology and outcomes are discussed.

### LEGAL CONSTRAINTS

Compliance with laws and regulations is of primary importance. Whether at the state, county, or municipal level, contracting exists in a complex morass of legal restrictions. The present discussion does not address specific questions of law, but illustrates the administrative impact of selected legal structures and requirements.<sup>2</sup>

Chapter 287, *Florida Statutes*, and Chapter 13A-1, *Florida Administrative Code*, provide legal conditions for government contracts (DHRS 1990, 2-1). The underlying framework upon which state agency contracting is to be carried out is expressed in the statement of legislative intent included in Chapter 287. A careful reading of this portion of the statute suggests the types and extent of the requirements imposed upon government agencies:

The Legislature recognizes that fair and open competition is a basic tenet of public procurement; that such competition reduces the appearance and opportunity for favoritism and inspires public confidence that contracts are awarded equitably and economically; and that documentation of the acts taken and effective monitoring mechanisms are important means of curbing any improprieties and establishing public confidence in the process by which contractual services are procured. It is essential to the effective and ethical

Table 16-4  
**CONTRACTUAL ARRANGEMENTS FOR  
DELIVERY OF HEALTH AND HUMAN SERVICES  
DEPARTMENT OF  
HEALTH & REHABILITATIVE SERVICES  
1986**

BUDGET ENTITY	NUMBER OF CONTRACTS	AMOUNT
Aging and Adult Services	407 ✓	\$156,721,533
Mental Health	249 ✓	192,218,682
Mental Health Institutions	93 ✓	4,553,672
Children's Medical Services	155 ✓	51,783,851
Children, Youth and Families Services	1,072 ✓	202,737,261
Institutions	22	8,458,625
Developmental Services	2,312	200,555,567
Developmental Services:		
Institutions	68	4,269,178
District Administration	218	15,701,910
Economic Services	166	13,770,566
Health Services	1,045 ✓	207,450,304
Health Services:		
Tuberculosis Hospital	9 ✓	232,243
Medicaid Services	39 ✓	54,317,019
Office of the Secretary	41	887,385
Office of the Deputy:		
Secretary for Operations	116	5,779,880
Office of the Deputy:		
Secretary for Programs	508	25,090,043
Office of the Deputy:		
Secretary for Administration	122	9,260,034
<b>TOTALS</b>	<b>6,642</b>	<b>\$1,153,787,753*</b>

\* By 1993 the dollar amount reached 2,037 billion. (DHRS, 1993)

Source: Law and Economics Center 1987.



procurement of contractual services that there be a system of uniform procedures to be utilized by state agencies in managing and procuring contractual services; that detailed justification of agency decisions in the procurement of contractual services be maintained; and that adherence by the agency and the consultant to specific ethical considerations be required (*Florida Statutes*, Ch. 287.001).

Chapter 287 then defines contractual services, provides for and prescribes competitive bidding procedures, and indicates circumstances when competitive bidding for contractual services shall not be required.

In addition to the provisions of *Florida Statutes*, Chapter 287, and the provisions granting powers to counties and municipalities in Florida, other constitutional and statutory provisions may affect the contracting process. For example, Article VII of the Florida Constitution restricts the use of funds and resources by the state and its subdivisions. One purpose of this provision is to protect public funds from use in assisting private ventures in the absence of a public purpose (*Florida Statutes*, Ch. 287, 356). Likewise, acquisition of property may be an issue in some contracting arrangements. Here the government's power of eminent domain becomes important. The state of Florida has the power of eminent domain and through statutes has delegated that power, with certain limitations, to its political subdivisions and even to certain private parties (*Florida Statutes*, Ch. 287, 357).

In addition to constitutional requirements, there is a series of federal laws that affect the process of contracting. Examples include: the Urban Mass Transit Act, the Fair Labor Standards Act, the Economic Recovery Act of 1981, the Tax Equity and Fiscal Responsibility Act of 1982, the Deficit Reduction Act of 1984, and the 1985 Omnibus Growth Management Act. Another issue potentially involving federal law arises in those contracts which might violate federal antitrust policy (*Florida Statutes*, Ch. 287, 352).

If contracts are funded by federal grants, they will be subject to even more requirements. For example, contracts issued by the Florida Department of Health and Rehabilitative Services which are funded by the U.S. Department of Health and Human Services must contain provisions relating to compliance with Executive Order 11246, Equal Employment Opportunity, the Copeland Anti-Kickback Act, and the Davis-Bacon Act, along with relevant Department of Labor regulations. Additionally, provision for compliance with standards promulgated by the Office of Management and Budget included in Attachment O, Procurement Standards, OMB

Circulars A-102 and A-110, must be included in the contract (DHRS, 1990, 9-12 - 9-13).

Legal requirements comprise an important feature of the administrative environment relevant to choices of delivery systems for government services. Perhaps the current level of development of the legal framework for contracting in Florida, at least at the local level, is best expressed by comments found in *The Role of Privatization in Florida's Growth*:

At present there are no explicit constitutional or statutory privatization provisions in Florida. Moreover, many relevant provisions are ambiguous, posing potential obstacles to privatization (Law and Economics Center 1987, 395-98).

It is not surprising, given this complexity and uncertainty, that the implementation of contracts in the face of disappointed bidders is often a long and litigious process. This complexity and ambiguity also suggest that the true cost of contracted services must take into account the possibility of legal delays and associated legal costs.

#### ADMINISTRATIVE INFRASTRUCTURE

Chackerian (1990) has noted elsewhere that the irony of government contracting is that while it usually is seen as an instrument for circumventing bureaucratic failures of incompetence, underfunding, inefficiency, corruption, etc., its success depends on having a competent bureaucracy. The reason for this is clear. Contracting for the delivery of government services does not remove the administrator from the chain of responsibility and accountability; it simply imposes different, and perhaps additional, responsibilities:

Most critics believe that the proper relationship between the government and its contractors depends on the government agency clearly being in control of the service and the private supplier. The government agency should set goals, draw up the proper procedures to encourage competition, and make careful performance evaluations in an objective manner (DeHoog 1984, 13).

Increasingly, governments are involved with *administered* contracts, which require a high level of administrative capacity. In earlier periods, government contracts were primarily for infrastructure and equipment of various sorts. These are often items that are produced in competitive markets and for which clear performance objectives can be specified. Administered



contracts are those for which there must be continual involvement of the government with the contractor because of noncompetitive markets, legal complexity, and the ambiguous technologies of service delivery. There must be a governmental capacity to specify program requirements, monitor contract performance, encourage the development of competitive markets, and assure the fiscal integrity of operations. Governments must be able to shift focus from hierarchical control to contract control; to shift from bureaucratic failure to competence (Chackerian 1990).

For example, a reason often cited for shifting from government to contract provision is the lack of expertise in the government. The lack of such expertise is one of the reasons cited most frequently by Florida's Department of Health and Rehabilitative Services for contracting (Chackerian 1990). Unfortunately, the austerity that is usually the reason for the lack of government expertise almost necessarily means that it will be very difficult to hire the new competencies necessary for expanded contract planning and monitoring (DeHoog 1984, 20 and 32).

Another reason for contracting is corruption. Certainly contracting changes the pattern of control and accountability, and thereby affects opportunities for public administrators to engage in corrupt practices (Chackerian 1990). While some argue that contracting out under open competition will cure corrupt practices, others argue that contracts are one of the most common and lucrative sources of corruption in government. Probably neither is entirely correct. What both sides fail to understand is that the problem lies with administrative incentives and values, not the method of service delivery. If bureaucrats do indeed act solely in their own interests, introduction of contracting will be seen by them as simply presenting new opportunities for self-aggrandizement. It follows that if contracting is to produce efficient and effective delivery of services, the administrative infrastructure must be comprised of administrators who value efficiency and effectiveness.

Another reason often given for contracting is the presence of low motivation and incompetence in public organizations, which is due in major part to the lack of incentive pay and to managerial discretion in pay, budget allocations, and personnel decisions (Chackerian 1990). The prospect of market provision implies that all these are positive incentives for performance, assuming, however, that providers are operating in competitive markets and, as noted earlier, the government is able to administer the contractual relationship.

## MICROECONOMIC CHARACTERISTICS

The public justification for contracting often involves the assertion of economic efficiency. It is important therefore to examine this argument. One particularly important variable is the potential for increased efficiencies due to large purchasing arrangements or scale economies. Scale economies can result from at least two different sources: (1) savings on the elements that go into a good or service (viz., input prices), and (2) minimizing the effective variance in levels of demand or capacity utilization (Farris & Graddy 1986). Volume discounts for purchasing in large quantities may result in lower input prices (i.e., costs) for materials and equipment. Contract arrangements allow smaller communities to band together and acquire large quantities of inputs, but it may also help large programs such as might be seen at the state level. With the privatization of state correctional facilities a growing trend in Florida, it would not be unreasonable to expect corporations such as Wackenhut or Corrections Corporation of America to enjoy enhanced purchasing power due to the enlarging scope of their activities. As this national market grows, Florida may be able to reap benefits from economies of scale by contracting with entities such as these.

Similarly, in cases where peak load demands are dramatically higher than normal loads, or where there are wide variances in load levels over time, labor and equipment may be underutilized during low demand periods. This is particularly true where manpower or equipment must be kept on reserve and called into service upon the occurrence of unpredictable events, such as an equipment failure or a natural crisis. Larger organizations, because they are exposed to a wider distribution of such events, should be more flexible in managing inputs, in order to avoid costly underutilization. Contracting may allow smaller units to share equipment and services and to spread uncertainties.

Other economic characteristics which may affect the method of service delivery are the size of the initial capital investment and the continuing operating capital requirements. In the current period of governmental austerity, private organizations may have more investment capital than has the government. Utilization of the capital base of private organizations can offer financial leverage to government entities through contracting arrangements such as leases, lease-purchases, or similarly structured agreements. Bay County, Florida, contracted with Corrections Corporation of America (CCA) for the construction and operation of jail facilities in 1985.



The (CCA) contract provides for the operation of the Bay County Jail, including a workcamp/jail annex constructed by the Corrections Corporation of America. A contract period of 20 years was selected....

Contract negotiations included a \$3.5 million provision for building of the workcamp annex. It was the contractor's responsibility to locate and purchase the land, build the workcamp, and start operations....

The final cost to the Corrections Corporation of America for construction of the workcamp was \$4.3 million. The CCA has recently gone public and has issued \$30 million worth of shares (Law and Economics Center 1987, 12-13).

Even if the government has adequate capital, its application may have restrictions, not the least of which are pay restrictions.

There is fairly good evidence that some wanted to contract educational services in Florida's Department of Corrections because it was the only way to increase salaries for inmate educators. As long as educators were paid by the Department of Corrections, it would be difficult to raise salaries above prison guards. Since teachers working for school districts and community colleges are paid higher salaries, contracting the inmate teaching function with school districts would bring prison teachers into these more generously paid positions (Chackerian 1986).

Interestingly, in this case, "contracting inmate education was not based primarily on a desire to reduce costs, but to make better use of funds and perhaps to increase resources to the program" (Chackerian, 1986).

### **PROGRAM TECHNOLOGIES, OUTPUTS, AND MONITORING**

It has been noted that for government agencies to successfully contract, it is necessary that the agency be able to properly monitor contract performance. This entails setting program goals and performing meaningful program evaluation. In this connection it has been argued that "the more complex the product, the better suited it is to public production. Historically governments have been more likely to contract services that can be easily monitored, i.e., services that have tangible and simple outputs" (Farris & Graddy 1986, 333). Farris and Graddy focus on measurable program outputs as the key to program evaluation and monitoring. This implies that contracting is less appropriate for those service areas which

tend to produce intangible, difficult, perhaps even unmeasurable, outputs. However, these are the characteristics of social services such as health and human services and correctional programs. Is contracting patently inappropriate here? Not necessarily, although this is often the case.

The exclusive focus on measurable program outputs when designing methods of evaluation for contracted service delivery ignores the wide area of action or *process controls* in monitoring. Process controls allow monitoring programs which do not have tangible, simple outputs; and, since this is the case with many government services, policy makers who consider contracting as an alternative delivery mode should be alert to the usefulness of these controls and their application to contracting situations. William Ouchi provided an insight into these alternative controls:

If we understand the technology (that is the means-ends relationships involved in the basic production or service activities) perfectly,...then we can achieve effective control simply by having someone watch the behavior of the employees and the workings of the machines: if all behaviors and processes conform to our desired transformation steps, then we know with certainty that proper [products or services] are coming out the other end....By specifying the *rules of behavior* and of *process*, we could create an effective bureaucratic control mechanism....(Ouchi 1979).

These process controls can take many forms, ranging from levels of professionalization to time and budget allocations. Where contracting seems compelling, effective government monitoring may be achieved even in the presence of intangible, perhaps even unmeasurable, outputs.

## CONCLUSION

"More steering and less rowing." That was a phrase heard frequently during the 1990 campaign for the Florida governorship. The phrase was seen by political commentators as the wave of the future if Lawton Chiles was elected governor. It should be clear, however, that state government rowing was a sport in precipitous decline much before the election. As we have shown, contracting and other forms of government action which place emphasis on nongovernment providers now accounts for much of what governments provide. The Chiles campaign phrase was forward looking, however, with respect to steering. While governments in Florida have embraced alternative production, they have been less able to steer and

control. The bureaucratic failures of under funding, organizational and managerial rigidity, legal complexity, and ambiguity have made control of performance in administered contract situations problematic. Ironically, if alternative production of public services is to work well, there must be significant improvements in the performance of government bureaucracies. In Florida at least this appears to be the major challenge to more effective use of alternative production methods.

### REFERENCES

- Auditor General (1990a). *Operational performance audit of the Florida Department of Health and Rehabilitative Services*. Tallahassee, FL: State of Florida, Office of the Auditor General.
- Auditor General (1990b). *Performance audit of the Department of Corrections' management of its contract with National Corrections Management, Inc.* Tallahassee, FL: State of Florida, Office of the Auditor General.
- Bowsher, Charles A. (1990). Budget reform for the federal government. In Frederick S. Lane (Ed.), *Current Issues in Public Administration*. New York: St. Martin's Press.
- Carroll, James et al. (1985). Supply side management in the Reagan administration. *Public Administration Review*, (November/December): 805-14.
- Chackerian, Richard (1986). From hierarchy to market and back again. *Florida Policy Review*, 1:26-29.
- Chackerian, Richard (1990). *Contracting public services: Ways of thinking about the decision to buy or make*. Tallahassee, FL: Florida State University, Florida Center for Public Management.
- DeHoog, Ruth Hoogland (1984). *Contracting out for human services*. Albany: State University of New York Press.
- Department of Health and Rehabilitative Services (DHRS) (1990). *Procurement and contract management: Contract management system for contractual services*. Tallahassee, FL: State of Florida, the Department.
- Department of Health and Rehabilitative Services (DHRS) (1993, September 10). Interoffice memo. Tallahassee, FL: the Department
- Farris, James & Elizabeth Graddy (1986). Contracting out: For what? With whom? *Public Administration Review* (July/August): 332-44.
- Hatry, Harry P. (1983). *A review of private approaches for delivery of public services*. Washington, D.C.: The Urban Institute Press.
- Havens, Harry S. (1986). Gramm-Rudman-Hollings: Origins and implementation. *Public Budgeting and Finance*, 6 (Autumn): 4-24.

- International City Management Association (ICMA) (1989). *Service delivery in the 90s: Alternative approaches for local governments*. Washington, D.C.: the Association.
- Kirchner, Geraldene and Kathy Karas (1989). *Culture, recreation and health — Ensuring the Quality of Life*, Special Data Issue Number 12. Washington, D.C.: International City Management Association.
- Kolderie, Ted (1986). The two different concepts of privatization. *Public Administration Review*, (July/August): 285-91.
- Law and Economics Center, University of Miami, and Local Government Center, Reason Foundation (1987). *The role of privatization in Florida's growth*. Tallahassee, FL: Florida Chamber of Commerce Foundation.
- Leloup, Lance T., Barbara Luck Graham, & Stacey Barwick (1987). Deficit politics and constitutional government: The impact of Gramm-Rudman-Hollings. *Public Budgeting and Finance*, 7 (Spring): 83-103.
- Nathan, Richard P. & John R. Lago (1988). Intergovernmental relations in the Reagan era. *Public Budgeting and Finance*, 8 (Autumn): 15-29.
- Ouchi, William (1979). A conceptual framework for the design of organizational control mechanisms. *Management Science*, 25:833-48.
- Reh fuss, John A. (1989). *Contracting out in government*. San Francisco: Jossey-Bass.
- Rosenfeld, Raymond A. (1989). Federal grants and local capital improvements: The impact of Reagan budgets. *Public Budgeting and Finance*, 9 (Spring): 74-84.
- Salamon, Lester (1989). *Beyond privatization: The tools of government action*. Washington, D.C.: The Urban Institute.
- Savas, E. S. (1990). On privatization. In Frederick S. Lane (Ed.), *Current Issues in Public Administration*. New York: St. Martin's Press.
- Shuman, Howard E. (1984). *Politics and the budget*. Englewood Cliffs, NJ: Prentice Hall.

## ENDNOTES

1. For interesting studies of these trends, see Nathan & Lago 1988 and Rosenfeld 1989.
2. Much of what follows is based on Chapter VII, "Legal Aspects of Privatization," Law and Economics Center 1987.