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Contracting and Sector Choice across Municipal Services

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WHETHER ORGANIZATIONS should contract out for goods and services or produce them internally (i.e., the "make or buy" decision) has intrigued scholars of public agencies and private firms for decades (see Coase 1937). Most explanations of vertical integration in private firms emphasize transaction costs incurred in negotiating, monitoring, and enforcing a contract or agreement. Expanding upon this framework, New Institutionalist scholars claim that the organization of transactions within rather than between firms is contingent upon the relative costs of internal and external transactions (Williamson 1975). If the cost of negotiating and enforcing contracts between firms is high, firms will have an incentive to organize production on their own rather than seek out external suppliers.

Governments, like firms, desire efficient production, but production efficiencies in governments can be lost when transaction costs are high, just as they can in private firms. Service contracts and the sector to which they are assigned are dependent upon the type of policy and the stability of the administrative environment within which the contracting process is managed. Certain classes of polices entail considerable monitoring and measurement costs that make contracting with private

agents problematic. In addition, uncertainty resulting from an unstable administrative environment reduces the ability of a local government to negotiate contracts, make credible commitments to suppliers, and enforce contracts.

Two problems stand out in the literature regarding transaction costs and municipal contracting. First, although both administrative turnover and the characteristics of goods have been linked to contracting problems, they have not been examined together in any systematic way. Second, empirical work typically has neglected choices among different providers for the supply of contracted services that are associated with different policy types. This empirical analysis estimates city contractor choices using a model that includes executive turnover as a measure of uncertainty in the administrative environment and indicators of various policy types that characterize city services. The findings reveal that transaction costs limit the gains to be achieved in contracting out services, particularly to private agents.

This study advances the existing literature on municipal contracting on two fronts. It explicitly includes policy types in the contracting choice analysis. Earlier works have focused primarily on either functional classification of

goods (Ferris and Graddy 1986; 1988; Stein 1990; 1993; Jossart-Marcelli and Musso 2005) or their characteristics (Nelson 1997; Brown and Potoski 2003b) and have overlooked the possible effect of different policy types on the nature of contracting choices. It also introduces stability of the administrative environment (previously an unexamined management variable) into the model of municipal contracting. The study then combines both policy typologies and uncertainty of administrative environment in a single model to test their effects, controlling for other better-known factors such as community heterogeneity, availability of service providers, and bureaucratic resistance.

Contracting, Transaction Costs, and Sector Choice

Transaction cost theory has been used extensively to explain the service contracting choices of municipalities (Stein 1990; Nelson 1997; Brown and Potoski 2003a; 2003b). The theory suggests that actors will choose a governance form that minimizes the transaction costs associated with the exchange (Williamson 1975). Governance forms could be a market or unified firm, or they could be intermediate hybrid-type forms embodied in long-term contracts, reciprocal investment, and franchising (Williamson 1991). Transaction costs include information, negotiation, monitoring, and enforcement of contracts (Feiock 2007). Cities may organize production in-house or choose to contract with other governments, nonprofits, or private, for-profit providers. Accordingly, they compare the transaction costs of each governance form associated with the exchange and choose the alternative that minimizes such costs.

Identifying potential providers and determining their competencies involve search costs. There also are costs associated with contract negotiation, which entails preparing contract documents and seeking advice from legal experts. The potential for opportunism among providers also demands monitoring of

contract performance during its implementation. Monitoring can involve costs ranging from setting up a process and establishing a system of feedback to renegotiation or re-adjustment, if any, during implementation. Cities may face legal disputes requiring arbitration or litigation to safeguard the terms of the contract.

Moreover, "bounded rationality" and opportunism among actors may increase transaction costs (Williamson 1981). Boundedly rational actors have limited capacity to gather or process information regarding all potential costs involved in an exchange. Actors may behave opportunistically—what Williamson (1975) calls "self-interest with guile"—to appropriate a larger share of the gains from the contract. Consequently, actors may be tempted to incorporate contingencies into a contract from the outset. The extent and variability of transaction costs depend on the degree of uncertainty in the administrative environment and the types of contracting policy choices available to cities.

Administrative Turnover and Contracting Choice

Although there has been considerable interest in what factors account for turnover among city managers and chief administrative officers (DeSantis, Glass, and Newell 1992; DeHoog and Whitaker 1990; Whitaker and DeHoog 1991; Feiock and Stream 1998; Feiock et al. 2001), little progress has been made in exploring how turnover might affect contracting choices. Contracting involves a city's relations with external actors. Political and administrative upheavals in a city's leadership result in uncertainty in the administrative environment and therefore reduce a city's ability to negotiate contracts, make credible commitments to suppliers, and faithfully uphold and enforce contracts once they are in place (Clinger-mayer and Feiock 2001). Doing business with a city when there is uncertainty regarding its expectations and dedication can be risky for external providers, and uncertainty may

increase when executive turnover is high (Mac-Manus 1991). Contractual exchange is more likely when both the municipality and the external provider consider the transaction to be in each of their interests than when either side is suspicious of the other's commitment to the terms of the contract. Furthermore, new leadership may not be satisfied with the existing contractual terms and may demand renegotiation.

Organizations generally delegate powers for policy implementation to executives (Milgrom and Roberts 1990). In council-manager cities, managers have broad authority to formulate and implement policy. Although executive decision making lies with the elected mayor in the case of mayor-council forms of government, much authority to manage city business is delegated to appointed administrators who oversee the process, from contacting providers to controlling the contract.

Frequent changes in the administrative environment increase external providers' uncertainty, which in turn affects the viability of the contractual relationships. Faced with administrative turnover, city officials may be unwilling to enter into agreements that would stipulate the extent, quality standards, or mode of service delivery. Cities may prefer more flexible, open-ended contracts that would enable them to adapt service provisions, but such contracts impose transaction costs upon suppliers. Besides, suppliers could demand substantial premiums in order to compensate for the increased risk, in which case any cost savings would quickly evaporate (Sappington and Stiglitz 1987). Thus, external contracting may be less likely under these conditions.

Uncertainty in the political structure of cities also affects the stability of the administrative environment. Changes in the council composition not only make it difficult to aggregate community preferences but also can lead to division and conflict over policy. In turn, administrators and external providers may be unsure about the expectations of the council. Divisions and disputes in the council also may motivate some members to remove administrative barriers, forcing out the administrator in order to push through their agendas and thereby claim political credit.

The effect of administrative turnover on contracting decisions is more direct. First, turnover of council seats is sometimes less frequent than managerial turnover because council members are elected for fixed terms, incumbents are typically reelected, and term limits are not the norm. Second, once a policy decision is made by the council regarding service provision, the organization and efficient delivery of the service become more of a managerial responsibility. Furthermore, uncertainty due to council turnover is broad based; the impact of administrative turnover on service delivery is more immediate.

Contracting with private firms is different from outsourcing to other units of government or nonprofit providers because the likelihood of opportunistic behavior is usually much higher when profit-seeking firms are involved. In private firms, the residual claimants (i.e., owners) are, in principal, in control, which may have implications for managers' capacity to address any deficiencies in contractual structure. Linking managers' rewards to organizational performance may offer incentives for efficiency, but it also may motivate managers to cut corners in various ways, including limiting access to services or allowing more costly aspects of service quality to decline. Although units of government or nonprofit organizations that contract with municipal governments may retain slack or excess resources, the prospect of acquiring these resources does not provide the same "high-powered incentives" for these entities to act opportunistically (Frant 1996).

Transaction cost problems that can be troublesome for cities pursuing any kind of external service delivery may be less severe when service responsibility is assigned to nonprofits. Contracting for services with nonprofits rather than for-profits generally involves complementary activities that may result in achieving economies of scale. Transaction costs are thereby reduced as activities

are shared to deliver final products or services. Because nonprofits are less influenced by high-powered incentives than are for-profits, the potential risk of opportunism and contract-monitoring costs are likely to be lower. Therefore, administrative turnover is expected to have less influence on nonprofit contracting than on for-profit contracting.

Taxonomies of Policy Types

Although governmental activities can be classified in many ways, several typologies have been specifically linked to service-delivery choices (see Stein 1993). Regulatory and non-regulatory functions (Lowi 1964; 1972), excludability and jointness of consumption (Ostrom and Ostrom 1977), and net benefit/cost to the median taxpayer have been differentiated (Peterson 1981).

The distinction between regulatory and nonregulatory activities is often made in policy studies (Lowi 1964). Regulatory actions involve governmental coercion and tend to have an immediate impact on individuals (Stillman 2004). Services requiring regulatory compliance such as zoning, building inspection, or traffic control often impose substantial administrative or compliance costs on firms and individuals. Because these costs tend to be concentrated and the benefits diffused over many constituents, regulatory activities often generate conflict and pose high bargaining costs (Wilson 1980). Cities therefore are less likely to contract out regulatory services. The value conflict inherent in such policies may particularly militate against the involvement of nonprofit organizations in service delivery (Clingermayer and Feiock 1990).

A second typology classifies goods and services based on the extent to which they have the attributes of excludability and jointness of consumption (Ostrom and Ostrom 1977). Generally, a good or service is nonexcludable when it is impossible, impractical, or costly to exclude some citizens from the consumption of the service. Jointness of consumption occurs when all citizens enjoy the benefits of the service without reducing the benefits to any one person.

Community policing service is an example of nonexcludability and joint consumption. Goods and services such as water supply or garbage pickup that are excludable and do not involve jointness of consumption often are considered to be private goods and generally can be provided in private markets. Governments may be called upon to provide such goods when the distributive impact of market allocations is not politically expedient. However, when risk of defection or potential opportunism of the provider is too high due to the monopolistic nature of the public goods market (as in the case of sanitary sewer or water supply), cities may prefer to have other governments provide these services or produce them in-house rather than contract out to the private market.

When exclusion is costly and jointness of consumption is present, services have the characteristics of public, or collective, goods that require governmental involvement to ensure adequate provision. Some goods such as community parks, roads, or beaches permit exclusion but maintain jointness of consumption. These "toll" goods may be provided by either the private or public market. Goods that are "common pool resources" such as groundwater extraction or public health involve rivalry in consumption but do not allow easy exclusion. Because geographically concentrated small groups of people consume most common pool resource goods, politicians may find contracting out to nonprofits more attractive. Nonprofits generally are locally based and are more responsive to the preferences of local constituents than are external delivery agents. Crime prevention, fire protection, and public information—which are nonexcludable and have jointness of consumption and therefore are considered to be collective goods—are likely to be delivered directly by municipalities (Stein 1993).

The third service typology follows Peterson's (1981) classification of services (expressed in rank order) based on whether the median

taxpayer's benefit-cost ratio resulting from provision of a service is positive (developmental), roughly zero (allocational), or negative (redistributional). Peterson (1981) argued that cities compete for residents and investment in order to maintain their tax bases and gain sufficient revenue to sustain governmental operations. Cities make use of developmental services to lure new investment or expand existing investments in the community. Provision of physical infrastructure facilities and services is an example of an investment that directly benefits businesses and high-income taxpayers.

Governments also must carry out basic services such as police, fire, or street maintenance services that are of a regular housekeeping nature. These allocational services do not necessarily have substantial developmental or redistributive consequences. According to Peterson (1981), cities rarely undertake redistributive programs such as provision of health or welfare services because they might drive away new investment or encourage existing investment to migrate to areas with less antagonistic business climates. Because of the controversial nature of redistributive services, cities may choose nondirect service modes to fulfill this responsibility (Stein 1993).

Extending Peterson's argument, it is predicted that developmental services will be organized in-house rather than provided externally because they are more politically attractive than redistributive services. Cities tend to be indifferent about delivery mechanisms for allocational services, but those that are contracted out are more likely to be provided by nonprofits because of the greater variety of preferences for these services.

Methodology

The effects of executive turnover and policy types associated with municipal services on contracting choices were tested using data from the International City/County Management Association's (ICMA's) *Profile of Al-*

ternative Service Delivery Approaches for the years 1988 and 1992.[1] These ICMA surveys were administered during one of the most dynamic stages in the development of alternative service-delivery arrangements and had higher response rates than did subsequent surveys. The survey from which the two data sets were drawn asked respondents whether their municipality provided particular services and if so, how those services were delivered. All municipalities with populations of 25,000 or greater in 1985 that were included in each of the two surveys were analyzed, for a sample size of 234 cities. These data were supplemented with information from various editions of the *Municipal Yearbook* and *County and City Data Books*. All 53 services reported in both the 1988 and 1992 surveys that exhibited variance in production mode were examined. The unit of analysis was city by service; the data were pooled by city and service.

The dependent variables in the model are polychotomous; that is, the dependent variables were grouped into four categories representing the contracting choices for 53 services classified by policy type. The four categories were in-house production, contracting with other governments, contracting with nonprofits, and contracting with for-profit firms. The analysis estimated the probability that a city would contract out services to each of these categories.[2] A multinomial logit model was employed, as is appropriate when there are discrete choices measured by a nominal scale. The reference choice is in-house production.

Independent Variables

The model included measures of policy types, administrative uncertainty, and other socioeconomic and political characteristics of communities and the governmental workforce that have been linked to contacting patterns. Three indicators of policy type were created based on the typologies described previously. A binary variable was used to distinguish be-

tween regulatory and nonregulatory services (coded 1 and 0, respectively). Excludability and jointness of consumption were dummy variables corresponding to private goods, public goods, and common pool resource goods. Services were coded as redistributive (0), allocational (.5), or developmental (1) according to Peterson's (1981) ordinal classification to represent the degree of cities' preferences for these policies.[3]

Administrative turnover was operationalized as the number of new chief administrative officers in the sample cities from 1984 to 1990 as reported in the municipal yearbooks, including managers in the manager form of city government and chief administrative officer in the mayoral form of city government. Turnover patterns revealed that over half (54.7 percent) of the cities had at least one new manager and 14 percent had two or more new managers during the period.

The analysis included several control variables. First, heterogeneity in community characteristics results in diverse preferences for services. Thus, contracting choices represent the unique needs of particular groups in the community. The homogeneity of city residents was operationalized in terms of race and socioeconomic status. Proxies for these measures were, respectively, the percentage of city population that is white and the percentage of population living below the federal poverty line.

Second, the size of the provider market is an important predictor of external contracting choice (Nelson 1997; Brown and Potoski 2003a; Feiock, Clingermayer, and Stream 2003). For example, alternative service providers are more available in larger markets such as metropolitan areas. The size of the provider market was measured by a dichotomous variable denoting whether or not a city is located within a metropolitan area. Increased service demands resulting from larger and growing cities also make external contracting more likely. To account for the effect of the demand side of the market, city size and population growth were included in

the analysis. City size was measured by the 1986 city population, and growth in cities was operationalized by the change in population between 1980 and 1986 as a proportion of the 1980 population.

Third, opposition to contracting often comes from municipal employees who may fear job losses. The stronger the employee unions, the greater the constraints a city faces in its ability to contract out. The percentage of the unionized state municipal workforce was included to measure the potential bureaucratic opposition to external contracting. Following previous studies (Feiock et al. 2003), the number of full-time public employees measured per 10,000 population was added as a variable indicating potential opposition to outsourcing. Because this variable also may capture bureaucratic capacity to supply services in-house, it is assumed that the greater the number of full-time employees, the lower the likelihood of external contracting.

Fourth, a city's contracting decisions also are affected by its prior experience with the provision of particular services and the scope of its total service delivery. Hence, cities that provide more services would be more likely to contract out because doing so promises to reduce overall service provision costs. This prediction was tested using a service responsibility indicator that counts the number of services provided by a city in 1987 as indicated in the *Census of Government Finances* (Clingermayer and Feiock 1990). A dummy variable indicating whether or not a particular service was provided in 1988 also was added to test the expectation that the newly adopted service is more likely to be contracted out.

Finally, previous studies indicate that citizens' ideological preferences for contracting out municipal services affect contracting choices (Jossart-Marcelli and Musso 2005; Feiock, Clingermayer, and Dasse 2003). The percentage of the countywide vote for the 1992 Republican presidential candidate was included to represent citizens' political preference for contracting.[4]

Results and Discussion

Table 1 shows the results of the multinominal logit estimation and reports the relative risk ratio (RRR) for each estimation.[5] A RRR provides a means by which to compare the propensity to contract out a municipal service to each of the alternative options.[6] A RRR coefficient greater than 1 indicates that the independent variable increases the likelihood of a particular type of external delivery choice over in-house production. If a RRR is less than 1, it is assumed that the variable reduces the likelihood of external supply (i.e., a tendency toward in-house production). For example, the RRR for manager turnover on contracting with nonprofit organizations is 0.860 (see Table 1). The odds of contracting with nonprofits rather than providing the service in-house are multiplied by 0.860; thus, each managerial change between 1983 and 1990 reduced the odds of contracting out services to a nonprofit provider by 14 percent. A RRR of 1 indicates that the variable has a neutral effect on the likelihood of contracting out to a particular service provider. Box 1 summarizes the main findings with respect to the administrative turnover and policy types.

Consistent with previous studies (Feiock et al. 2003), the results show that administrative turnover reduces the likelihood of all forms of external contracting. In the case of contracting with other governments, although the effect is not significant, it is in the expected direction. The effect is statistically significant and quite large for contracting out to both nonprofit and for-profit providers. Each turnover in city executives reduced the likelihood of contracting out to nonprofits by 14 percent; the effect was about 12 percent in the case of for-profit firms. This result supports the proposition that executive turnover increases the transaction costs of contracting and affects the ability of cities to make credible commitments to external providers.

The analysis provides mixed findings with respect to the effect of policy types on contracting preference. The regulatory and non-

regulatory distinction was found to have important consequences. The regulatory service category is significant for other governmental providers and nonprofits. The RRRs show that although cities prefer to contract out regulatory services to other governments (RRR = 1.25), they favor in-house production of these services over contracting out to not-for-profits (RRR = 0.451). As discussed earlier, these differences may be the result of the value conflict inherent in regulatory policies that tend to concentrate costs or benefits in small segments of society (Lowi 1964). Nonprofit organizations may be interested in providing regulatory services because they have a stake in the value conflict. However, the transaction costs associated with the risks of delegating coercive authority to nonprofits that advocate a particular policy may make these providers less attractive (Ferris and Graddy 1986).

The variable pertaining to contracting choices for private goods is statistically significant for all three external providers. However, the RRRs of less than 1 for all these providers indicate that cities prefer to produce private goods in-house rather than contract them out. Generally, private goods are optimal candidates for contracting out unless the contracting costs and uncertainties are too prohibitive. This departure from the expectations suggests that the role of municipal governments in delivering private goods should be evaluated in terms of both service provision and production responsibilities. The fact that a city is responsible for the provision of a specific private good suggests that the community may be dissatisfied with the market allocation of the service, perhaps based on equity or distributional considerations. Private market delivery may undermine the equity goals motivating public provision.

The results support the expectation with respect to public goods. Cities generally prefer in-house provision of public goods to contracting out. For common pool resource goods, although cities prefer to supply them in-house rather than contract them out to

other governments and for-profit providers, there is a strong tendency to contract out to not-for-profits. Because geographically concentrated groups consume most common pool resource goods, political support from the core constituency may encourage local

officials to contract with locally based nonprofits for the delivery of such goods. The assumption is that delivery agents are motivated to be responsive to constituents' preferences. The same locally based interests would most likely oppose contracting out to other govern-

Table 1. Multinomial Logit Estimates of Contractor Choice of Cities

Variable	Other Government [a]		Nonprofit Provider [b]		For-Profit Provider [c]	
	RRR	Z	RRR	Z	RRR	Z
Provided in 1988	1.002 (0.013)	0.199	0.978 (0.022)	−0.944	0.977 (0.014)	−1.577
Percent white	0.998 (0.002)	−0.371	1.017** (0.005)	3.522	1.000* (0.003)	1.808
Below poverty	1.010 (0.007)	1.511	1.044** (0.010)	4.290	0.997 (0.007)	−0.331
Manager turnover	0.956 (0.043)	−0.979	0.860* (0.066)	−1.953	0.883** (0.042)	−2.585
Standard metropolitan statistical area	0.947 (0.051)	−0.985	0.956 (0.084)	−0.504	1.210** (0.069)	3.322
Service responsibility	1.002 (0.003)	0.699	0.998 (0.006)	−0.187	1.008** (0.004)	2.103
Public unionization	0.993 (0.004)	−1.485	0.999 (0.007)	−0.078	1.001 (0.004)	0.371
Public employees	0.999** (0.000)	−3.884	0.999** (0.001)	−2.523	0.999** (0.000)	−2.668
1992 Republican vote	0.977** (0.004)	−5.227	0.983* (0.007)	−2.251	0.997 (0.004)	−0.457
Population change	1.439 (0.555)	0.944	0.780 (0.508)	−0.381	2.219** (0.868)	2.037
1986 population	0.960 (0.034)	−1.120	1.092* (0.060)	1.612	1.135** (0.038)	3.716
Regulatory service	1.253** (0.105)	2.697	0.451** (0.077)	−4.168	1.089 (0.091)	1.023
Private good	0.702** (0.061)	−4.001	0.095** (0.018)	−12.310	0.309** (0.028)	−12.940
Public good	0.645** (0.055)	−5.097	0.470** (0.055)	−6.449	0.479** (0.037)	−9.368
Common pool resource good	0.643* (0.147)	−1.920	2.543** (0.554)	4.281	0.545** (0.138)	−2.380
Peterson classification	0.202** (0.021)	−14.040	0.381** (0.061)	−5.979	0.517** (0.055)	−6.256

*p < 0.10 (two-tailed). **p < 0.05 (two-tailed). N = 9,070. Log likelihood function = −8207.23. chi-square = 926.98.
[a] n = 1,342.
[b] n = 460.
[c] n = 1,250.
Note: Numbers in parentheses are standard errors. The "toll goods" variable was dropped due to collinearity. RRR = relative risk ratio.

ments or profit-seeking firms that may be less responsive to local preferences. For Peterson's policy typologies, the RRRs are less than 1 for all three external providers, which suggests that developmental services are more likely to be provided in-house and redistributive services are more likely to be contracted out.[7] Allocational services are likely to be contracted out to profit-seeking firms.

Heterogeneity is significant mainly with regard to not-for-profit contracting choices. As previous studies have found (Feiock, Clingermayer, and Stream 2003), the effect of the percentage of the community that is white on cities' choice between in-house supply and for-profit contracting was found to be neutral, but a positive effect was found between percentage white and contracting with the not-for-profit sector. Similarly, poverty has a positive effect on contracting out to nonprofit organizations. Cities with lower-income residents typically have more nonprofit organizations. Greater competition among nonprofit

service providers might make the not-for-profit sector a better choice in terms of lower costs for contracting. It also is plausible that this variable captures the unique demand for services to address the health and safety needs of poor residents, for example. In the delivery of these services, nonprofit organizations have a competitive advantage over other governments or for-profit sectors.

The findings indicate that cities that are located in metropolitan areas are more likely to contract out services to profit-seeking firms than other cities, suggesting that metropolitan areas offer more service-provider options, including for-profit providers. Similarly, as expected, larger and growing cities are more likely to contract out services because they tend to rely on external providers to meet the growing service demands of their residents. Whereas large cities prefer contracting with both nonprofit and for-profit firms, growing cities are more inclined to look to the for-profit sector.

Box 1. Summary of Propositions and Findings

Main variables of interest	Expected impact on contracting sector choices	Main findings
Administrative turnover	Reduction in the likelihood of external contracting	Reduction in the likelihood of contracting out with for-profit and non-profit providers. The result is not significant in the case of contracting out with other governments.
Policy types		
Regulatory service	Less likelihood of contracting out	Decrease in the likelihood of contracting out with nonprofit providers, and increase in the likelihood of contracting out with other governments. In the case of for-profit providers, the result is insignificant.
Private goods	Increase in the likelihood of for-profit production or other governments	Decrease in external contracting (that is, cities prefer in-house production)
Public goods	Decrease in the likelihood of external contracting	Reduction in the likelihood of contracting out
Common pool resource goods	Preference for contracting out to nonprofit providers	Increase in the likelihood of contracting out with nonprofits. Decrease in the likelihood of contracting out with other governments and for-profits.
Developmental services	Preference for in-house production	Increase in the likelihood of in-house production

The state-level measure of municipal workforce unionization was not found to be significant in affecting external service-delivery choices. The size of the city workforce, on the other hand, was significant for all three contracting choices. The estimated RRRs are only slightly below 1 (RRR = .999), indicating a slight reduction in the likelihood of in-house supply over external delivery choices. Cities with a large number of employees have greater internal capacity to produce services; thus, there may be less of a need for external contracting, which may result in greater bureaucratic resistance to external contracting. Furthermore, the more service responsibilities a city has, the more likely it is to contract out with for-profit providers. This finding supports the argument that cities use contracting to reduce overall costs of operations that are generally greater in full-service municipalities. Republican support decreases the likelihood of contracting out with other governments and the nonprofit sector. External contracting decisions are not necessarily guided by whether the service in question is old or new.

Conclusion

The findings of this study suggest that cities do take into account the nature of a service and the type of policy it reflects when they make contracting choices. Governments may find it expensive in some cases to execute policies through external contracting but advantageous in others. For example, some localities may be unwilling to contract out regulatory services to nonprofit organizations because of the risks of delegating coercive authority (Ferris and Graddy 1986). Cities generally do not contract out public goods because the costs of monitoring and curtailing potential opportunism are too high (Brown and Potoski 2003b). In addition, some local leaders may not wish to contract out public services that are inherently governmental in nature because doing so would limit their ability to claim credit for providing services such as police or fire to which communities attach

prestige value. Similarly, because the political transaction costs of external contracting are too high, developmental services tend to be supplied in-house, even though they are not inherently governmental, as in the case of public goods.

The findings regarding executive turnover are even more compelling. Although previous studies have shown that the effect of administrative turnover may vary with the type of service (Feiock et al. 2003), the results of this study indicate that cities conduct less external contracting when there is an increase in administrative turnover irrespective of the type of policy or service. Because of the instability that administrative turnover creates, external contracting becomes a more expensive and risky choice, especially for nonprofit or for-profit organizations. This failure to privatize has been termed contract failure (Lamothe and Lamothe 2006). If contract failure seems likely, in-house service delivery may be the best strategy for cities.

Institutional, political, policy, and administrative environments influence municipal governments' service-delivery choices. This analysis suggests that transaction cost theory may be useful in explaining political decision making (Stein 1990). However, further refinements may be needed to better understand the dynamics of municipal contracting in an interactive environment. Future work could translate the various policy typologies and their underlying concepts (possibly with some measure of statistical reliability) to other service areas and to cities with populations of less than 25,000. Explicit modeling of the relationship between political and administrative turnover may provide insight into the effect of the administrative environment in contracting choices. Moreover, the effect of administrative turnover with respect to form of government also may shed light on why certain contracting choices are made. For example, the council-manager form of government may be more vulnerable to the uncertainties of administrative turnover than the mayor-council form of government. Finally,

studies that incorporate a more direct measure of city residents' political preferences might be revealing with regard to the role of political ideology in service-delivery choices.

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Notes

1. The response rates for the 1988 and 1992 surveys were 40.2 percent (N = 1,311) and 36.7 percent (N = 1,220), respectively. ICMA surveys typically have low response rates.

2. In order not to violate the independence of irrelevant alternative assumptions, it was assumed that all three modes of contracting choice are discrete and available to all municipalities (see Alvarez and Nagler 1998).

3. The appendix is available from the authors or the Devoe Moore Center Local Governance Program at www.fsu.edu/~localgov/research_projects/service_delivery.htm.

4. Ideology is measured at the county rather than the municipal level because election results are reported at the county level. There is no municipal-level measure to capture different voting patterns in cities and their suburbs. Previous studies have examined county voting patterns to determine the effect of ideology in elections.

5. A single equation model was estimated because the three service classifications measure three distinct theoretical concepts. An ordinal measure of association (the symmetric lambda statistic) was employed to examine the interrelations among service classifications. Virtually no relationship between the service-sector classifications was found, which suggests that they should be analyzed in the same model. Because symmetric lambda is a nondirectional measure of association, it requires no assumptions about the direction of causal relationships between two variables. The Peterson variable was coded as three dichotomous dummy variables so that it would be comparable to the measures used in the other two service classifications. The results did not change when an ordinal measure of association was used to test the relationships among the service classifications.

6. For the set of service-delivery alternatives, (s), the RRR for an alternative service-delivery category (j of s) and an independent variable (x) equals the amount by which the predicted odds favoring j over direct city provision (the base category of s) are multiplied per a one-unit increase in x, all other factors being equal.

7. Estimates for Peterson categories that were operationalized with a set of dummy variables yielded similar results.

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