

# PRIVATIZATION IN CALIFORNIA STATE GOVERNMENT

## ***What Is Privatization, and How Can It Best Be Used To Improve California State Government?***

### **Summary**

*Privatization—defined as the involvement of the private sector in providing goods and services that otherwise might directly be provided by governments—is one of the most talked-about subjects in government today. There are many different types and forms of privatization, and recent years have seen a steady increase in the scope and nature of privatization activities at all levels of government, both in the United States and elsewhere. A variety of factors are responsible for this trend, including the budgetary problems that governments continue to face and their related interest in providing services in an efficient manner.*

*The 1996-97 Governor's Budget does not contain a major privatization proposal. However, in his January State of the State address, the Governor announced that he will be presenting proposals by mid-April to improve governmental efficiency. Although few specifics regarding the proposals are available at this time, they are expected to include recommendations on a variety of ways that the state can rely more on the private sector to provide services or participate in their delivery.*

*The purpose of this analysis is to provide the Legislature with useful background information regarding privatization and a framework for considering privatization-related proposals, such as the Governor's. It discusses the types and forms that privatization can take, and the extent of current activities in California. It then discusses how future decisions about privatization can best be approached by the Legislature, and the various criteria that it should focus on in making privatization-related decisions. These include the importance of establishing privatization-related goals and objectives, choosing the right types and forms of privatization, and recognizing the various potential problems and risks associated with privatization. The analysis concludes that additional privatization opportunities do exist for the state and should be explored. However, they should be adopted only when they make sound economic and policy sense, based on the criteria discussed.*

## INTRODUCTION

The concept of privatization has received increasing attention in recent years at all levels of government, both in California and throughout the nation. In fact, privatization is really a worldwide phenomenon. Because there are many different types and forms of privatization, the term often means different things to different people. Simply stated, however, privatization involves reliance on the private sector, to one degree or another, in providing goods and services to citizens that otherwise might be provided directly by governments.

In his State of the State address in January, the Governor indicated that he will introduce proposals by mid-April to improve governmental efficiency. Although few specifics of the proposals are available at this time, the Governor is expected to propose making changes in the way that a variety of state functions are currently provided, including relying more on the private sector to directly accomplish them or to play a role in their provision.

The purpose of this piece is to provide the Legislature with background information regarding privatization and a framework to use in considering future privatization proposals. This piece first discusses the growing interest in privatization and the existing scope of privatization activities throughout the nation and elsewhere. Next, it discusses examples of current privatization activities within California state government. It then discusses how future decisions about privatization can best be approached by policymakers, and various criteria that they should focus on. These include the importance of setting privatization-related goals and objectives, choosing the right type and form of privatization, and understanding the various potential problems and risks associated with privatization.

***What Explains the Growing Interest in Privatization?*** The increasing attention given to privatization is due to several factors. First, it is partly due to the budgetary problems that governments—federal, state, and local—have struggled with in recent years and continue to face today. Because of these budgetary problems, many governments have become more focused than before on exploring ways to provide public services more efficiently, thereby reducing their costs to taxpayers and freeing up available public funds for other needs. There also is ongoing interest in, and pressures to maintain and improve, the quality of those public services which governments do provide. And, finally, there has been more questioning of whether governments should, or can afford to, provide certain types of services at all, or instead should simply rely on the private sector to accomplish these ends.

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## THE SCOPE AND DIVERSITY OF PRIVATIZATION ACTIVITIES

As noted above, privatization—the involvement of the private sector in providing goods and services that the government might otherwise directly provide—comes in many different types and forms. Public finance experts assert that most things the government does can be privatized, at least to a degree, and in fact probably already have been by some government at some point in time.

The broad scope and diversity of privatization activities can be seen in Figure 1, which provides a partial listing of program areas where privatization has played a role at different levels of government in the

<b>Figure 1</b>	
<b>Selected Examples of Areas Where Governments Have Privatized</b>	
<b>Governmental Program Area or Activity</b>	
Adoption services	Municipal water supply
Air traffic control	Museums
Airports	Nursing homes/services
Animal control/shelters	Parks and preserves
Campgrounds	Parking lots/fines
Concessions	Personnel management/recruiting
Data processing	Printing/publishing
Day care centers	Prisons and jails
Dropout prevention	Road maintenance and repair
Employment training	Renewals of drivers'/vehicle licenses
Food services	Satellites/telecommunications
Fire suppression	Schools
Garbage/refuse collection	Security personnel/systems
Hazardous waste management	Social security/pensions
Information technology	Sports facilities/stadiums
Inner-city housing	Street cleaning
Inspection/testing services	Substance abuse treatment
Janitorial services	Tax collections/returns processing
Landfills/solid waste	Telephone services
Landscaping	Toll roads/bridges
Liability insurance	Utilities (electric/gas)
Libraries	Vehicle maintenance
Locator services	Wastewater treatment
Mail/postal services	Welfare (via donations/volunteerism)
Mass public transit	Weatherization
Medical insurance	Wildlife resources
Mental health	Weather forecasting

United States and elsewhere. Most key program areas appear on the list. And, as discussed later, the specific methods used to achieve privatization cover a wide range, including contracts, loans, subsidies, deregulation, tax expenditures, government corporations, private franchises, public-private enterprises, asset sales, and many others.

The extent and nature of privatization activities can differ significantly. For example, in the United States, privatization generally has progressed furthest at the local and federal levels, although privatization activities currently are increasingly occurring in states. Likewise, there are significant variations between nations, in part due to their different political and economic philosophies and institutions. In many socialistic countries, for instance, privatization has become associated with the selling-off of government-owned industries to the private sector. An example of this is currently occurring in Mexico, where a large number of state-owned petrochemical plants are slowly being auctioned off to private investors. In contrast, in the United States with its free-market economy and more limited degree of state-owned and managed enterprises, privatization has been more associated with involving the private sector in the process of providing public services, such as through contracting. A typical and commonplace example of privatization throughout this country involves the many municipalities that contract for such services as refuse collection.

## **PRIVATIZATION IN CALIFORNIA STATE GOVERNMENT**

As is true for most states, there currently are a variety of program areas where California state government makes use of the private sector in providing public goods and services to its citizens. Some illustrative examples are summarized in Figure 2 and discussed below.

### **Adult and Juvenile Corrections**

Corrections, including both adult corrections and juvenile corrections, is one of the more well-developed areas of privatization among state and local governments in this country. Generally speaking, the dominant form of privatization activity in the corrections area is private contracting. Other forms of corrections-related privatization throughout the nation have included grants and subsidies to private organizations doing corrections-related activities, reliance on volunteer help, and use of temporary help from private firms (such as to solicit donations of equipment or obtain management assistance).

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**Figure 2**  
**Examples of Privatization in California State Government**

Program Area	Examples of Privatization Activities
<b>Corrections</b>	Contracts for prison beds, medical services, management-related services, and certain treatment services; joint ventures involving inmate work programs.
<b>Education</b>	Contracts for K-12 busing services, liability insurance, consulting services, and various procurement (including textbooks and standardized tests).
<b>Transportation</b>	Contracts for construction work, certain design and planning activities; pilot toll road projects.
<b>Social Services</b>	Contracts involving certain services in the areas of health, mental health, and alcohol and drug programs; employment training contracts and grants; regional centers for the developmentally disabled.
<b>Resources</b>	Contracts for concessions at state facilities, activities on forest lands, and hazardous waste clean-up; reliance on certain user fees and charges.
<b>General Government</b>	Private construction contracts; contracts for janitorial, laundry, and security services; leasing activities; certain procurement; use of private investment advisors, actuaries, and bond underwriters and legal counsel; private insurance for employees; private firms to help locate noncompliant taxpayers; various consultant services (such as involving architects, engineers, attorneys, information technology, environmental impact reports, and special studies).

**Corrections-Related Contracting Nationally.** More than ten years ago, national surveys found that corrections agencies were active in contracting in more than 30 separate identifiable categories of goods and services. As Figure 3 (see page 178) indicates, these categories cover a broad range of activities, including management and operation of correctional facilities, education, recreation, medicine, transportation, and employment training and assistance. And, within these broad individual service categories, there are a variety of subcategories where contracting is done. Contracts involving food services, for instance, can cover such areas as procurement, warehousing, transportation of food and supplies, supervision of inmate meal preparation, serving meals, cleanup and sanitation of kitchens and dining rooms, and security services for eating areas.

Figure 3 Selected Examples of Contract Activity by State Corrections Departments Throughout the Nation	
Type of Activity or Service	
Aftercare	Legal services
Blood supplies	Mental health services
Canteens/commissaries	Nutrition
College programs	Personnel
Community treatment centers	Physicians
Computer services	Private use of prison labor
Construction	Recreational therapy
Counseling	Religious programs
Cultural and arts programs	Security services
Drug treatment	Therapeutic training
Facility management	Staff training
Facility operations	Sex offender treatment
Food services	Sports activities
Health services	Transportation
Hobbycraft sales	Video services/equipment
Inmate businesses	Vocational programs
Landscaping and gardening	Work-release activities
Laundry	

**Contracting for Prison Management.** According to the National Conference of State Legislatures, as of 1995, 28 states had enacted legislation enabling their corrections agencies and departments to contract out for private management of corrections facilities, or to shift responsibility for the management and operation of prison facilities to private prison management corporations. The first initiative in this area was at the federal level in 1984, when President Reagan approved private-holding cells for undocumented immigrants in Texas. Since then, 20 private prison management firms have emerged nationally, managing 84 facilities last year with total inmate capacity of nearly 44,000.

### Corrections-Related Contracting in California

The California Department of Corrections (CDC) currently uses private vendors to provide a wide variety of services, including many of those identified above. For example:

- **Private Incarceration.** This involves the use of private and nonstate public community correctional facilities (CCFs), which

house parole violators and other lower-level offenders. There currently are about 1,400 beds under contract with private providers (including private nonprofit providers) and about 2,700 beds placed with public providers (small cities that operate these facilities). (Although use by the CDC of local public beds does not represent privatization from an overall government sector perspective, it does reflect privatization within the narrower perspective of the CDC.) Another 1,100 beds are provided in work-furlough facilities operated by private vendors. The CDC currently is seeking private vendors willing to provide up to 2,000 additional privatized beds—or an expansion of about 50 percent in CCF beds.

- ***Inmate Medical Care.*** The CDC is currently budgeted to spend more than \$65 million annually on private medical care for inmates, including contracts with physicians and hospitals.
- ***Other Privatization Activities.*** The CDC's Planning and Construction Division currently contracts with private vendors to provide management-related services for the state's prison construction program. It also is engaged in a limited privatization of its inmate work program, in which private businesses establish joint-venture enterprises on prison grounds. The CDC also has many contracts with private entities to provide specific services to parolees, such as emergency housing and drug treatment.

## State Privatization in Other Program Areas

In addition to corrections, California's state government engages in various forms of privatization in a variety of other program areas, as summarized above in Figure 2 and discussed below.

### Education

A relatively modest degree of privatization involving a number of different education-related functions and activities currently exists in California. Many K-12 school districts, for example, contract with the private sector in such areas as transportation services (primarily busing), consulting, and procurement (including textbooks and standardized tests). Additionally, many schools have increasingly turned to private donations to fund a variety of programs previously financed through school budgets, ranging from sports activities to music programs to science and art equipment and supplies.

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In certain other areas, however, relatively little if any education-related privatization in California has occurred, including acquisition and use of privately provided school facilities (this partly reflects the building code standards that apply to schools), use of private teachers, and reliance on private vendors for maintenance. California school districts also do not contract with nonprofit or for-profit entities to operate schools, as is done elsewhere in certain parts of the country. In addition, California has yet to use vouchers for K-12 education as occurs in various other states, whereby parents are given a certain dollar amount for their child's education which can be "spent" for education at a school of their choice—public or private. California does, however, allow parents a certain degree of choice regarding which public schools their children attend, a key tenet of educational privatization. This recognizes that choice can encourage and result in healthy competition for students, and thus improve educational quality.

### **Transportation**

A considerable amount of privatization exists within state transportation programs, the majority involving contracting. Under existing state law, for example, most construction work on transportation projects (as well other state construction activities generally) is carried out using private-sector labor. This work is generally awarded on a competitive-bid basis and is subject to various requirements, such as that wage payments to workers are reflective of the labor market generally (with the exact wages paid determined subject to the federal Davis Bacon Act or related state law provisions). The state also relies on contracting for a variety of transportation-related planning and design activities, such as in the case of seismic-related projects. The budget is proposing to shift to contractors certain testing and oversight functions currently done directly by the state. In addition, the budget is proposing to shift a portion of its highway maintenance work to contractors.

The state also is experimenting with private ownership and operation of roads. Under the provisions of Ch 107/89 (AB 680, Baker), four pilot projects of this nature have been authorized. The first has just opened—a toll road project in southern California. This project was privately financed and will be privately operated under a 35-year franchise agreement. Among the other pilot projects will be a state highway.

### **Social Services**

Most of the funds which the state expends in such areas as health, welfare and employment are "passed down" to localities in one form or another. A variety of privatization occurs in these areas, primarily

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through various contracts between public and private entities. For example, certain counties receiving state funds do considerable contracting involving mental health services, and alcohol and drug programs. As another example, San Diego County has contracts with 21 nonprofit community-based groups to operate primary care clinics. Similarly, Los Angeles County has public-private partnership agreements for the operation of six health centers to deliver both primary and preventive care, and is in the process of developing more agreements. Some contracting also is being done by counties in the benefits issuance component of the Food Stamps program, the provision of services in the In-Home Supportive Services program, and in the child welfare services area (for example, parenting classes and counseling).

Privatization also plays a role in the general area of employment and job training. For example, the Employment Training Panel contracts to provide skills training to unemployment insurance (UI) claimants, particularly recent recipients of UI benefits who have exhausted their benefits, and workers who are likely to be displaced. Under the program, the state allocates funds to help cover the costs of training and retraining programs. A variety of entities have applied for and received funds, including manufacturing corporations, banks, colleges and universities, and labor unions. A “performance contract” approach is used, where full reimbursement for training expenses requires that employees are placed in jobs for minimum periods of time at state-approved compensation levels.

### **Resources**

Examples of current privatized activities in this general area include contracts for concessions at state parks and other recreational facilities, reliance on user fees and charges to fund various recreational activities, and contracts for logging, transporting, and other lumber-related activities on state forest lands. The state also has privatized various aspects of its hazardous waste cleanup activities, including certain oversight functions.

### **General Government**

Essentially all actual construction and building involving state government space needs are done through private contracts. In addition, the state relies primarily on private architects for the preparation of plans and drawings for state facilities. The state also leases a majority of its facilities, including build-to-suit leases and lease-purchase arrangements. Finally, the state contracts for janitorial and security services in many of the buildings it uses.

Other examples of areas where the state has privatized include contracting for the development and implementation of information tech-

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nology projects, contracting for private investment experts and actuaries in the state's retirement systems, contracting for underwriting and legal services needed to sell state bonds, providing insurance coverage for state employees, and contracting with private firms in attempting to locate individuals owing taxes and fees to the state.

Low-income housing is another area in which the state relies extensively upon private parties to carry out its objectives. Specifically, the state provides a variety of loans, grants, and tax credits to private and nonprofit organizations that build or rehabilitate housing for low-income people. The state Department of Housing and Community Development is currently in the process of transferring one state-administered housing program (Century Freeway) to private management.

Another privatization example, which was most common during previous periods of high energy costs, involves reliance on third parties to construct and operate cogeneration facilities on public property. These private construction costs are financed through revenue bond sales, with debt-service, operating costs, and maintenance expenses paid out of the proceeds from electricity sales to the state and utility companies.

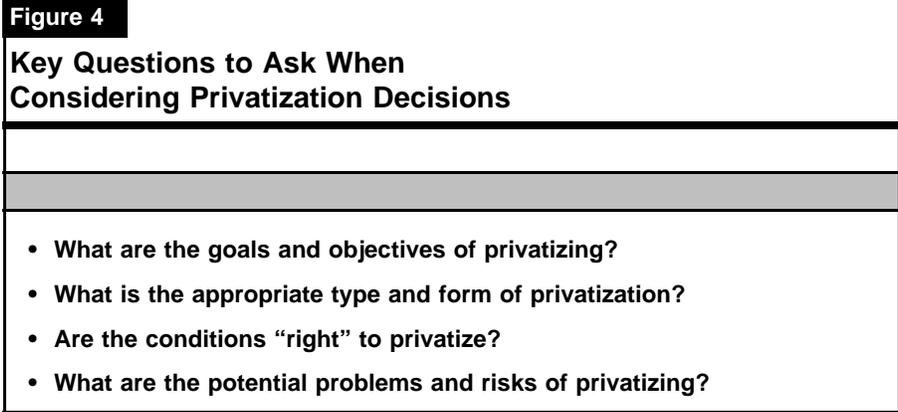
## **HOW SHOULD PRIVATIZATION DECISIONS BE APPROACHED?**

In considering privatization proposals, there are four basic questions that policymakers should consider to ensure that good decisions are made regarding whether a program is a good candidate for privatization and, if so, what type and form of privatization is best. Figure 4 lists these key questions. The Legislature may wish to focus on them when considering the various elements of forthcoming privatization-related proposals by the Governor.

### **What Are the Goals and Objectives of Privatizing?**

Governments have in the past tended to privatize various activities for a variety of reasons, some good and others not so good. For example, privatizing solely as a means of coping with near-term governmental financial problems (such as selling assets or franchises for private parties to deliver services) or focusing primarily on reducing government employment, may not always be beneficial. For instance, privatization reportedly has in some cases actually increased the costs of providing services or impaired their quality. Thus, the trick to good privatizing is to carefully choose the objectives you are trying to achieve, and then privatize in a manner which will allow you to meet them.

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*Effectiveness and Efficiency Should Be Key Criteria.* In our view, the objective of privatization should be improving the effectiveness and efficiency with which public services are provided. In achieving these goals, the state should ensure appropriate levels of service quality and accountability.

### What Is the Appropriate Type and Form of Privatization?

Once the basic goals and objectives of privatizing a particular activity are decided upon, the next steps in successful privatization are determining (1) exactly what particular aspect(s) of the activity to privatize, and (2) the best method for doing so.

### What Functions Should Be Privatized?

There are four key functions that must be performed in providing any good or service, regardless of whether this is done by a government entity, the private sector, or some type of partnership involving both. These functions are:

- **Policymaking.** Deciding whether a particular governmental service should be provided at all and, if so, what its service level and quality attributes should be.
- **Funding.** Determining how a service should be paid for, including the method of financing used, and how its costs should be distributed among those directly and indirectly benefiting from it.

- **Administration and Oversight.** Administering and being accountable for overseeing the day-to-day provision of the good or service.
- **Service Delivery.** Providing a good or service, including its completion and delivery.

When considering privatization, it is important that there be a clear understanding of which of these basic functions should be carried out by the public sector and which by the private sector. In some instances, it may be appropriate to split the responsibilities even within these individual functional areas.

### What Tools Are Available to Perform These Functions?

A wide variety of tools and options are available for performing each of the above four basic functions, ranging all the way from direct government to total reliance on the private sector. Figure 5 shows that between these two extremes is a continuum of options, reflecting different degrees and types of private sector partnerships with governments in providing goods and services.

Each of these tools essentially reflects a form of privatization. For a number of years now, well before the term “privatization” became popular, economists and public finance experts have noted the growing extent to which so-called “government programs” no longer reflect simply direct governmental service delivery, but rather embody many key features of privatization. Today, this is true more than ever before. As noted in Figure 5, the governmental “tool kit” relating to privatization includes far more than just the extreme of simply “stripping away” activities from the government and “turning them over” entirely to the private sector. Included also are such elements as, for example, contracting out, project grants, direct loans, loan guarantees, interest rate subsidies, deregulation, tax expenditures, vouchers, government corporations, voluntary partnerships, franchises, price supports, and asset sales, as well as many others.

One of the more important tools—contracting out—is limited by the state constitution. It effectively requires that the bulk of state government work be done by state employees, with contracting of public activities to private enterprises allowed only in certain circumstances. Thus, a constitutional amendment would be needed in order to fully “open the door” for contracting out by the state. (This issue is currently being considered by the California Constitution Revision Commission.)

The types and forms of privatization that are seen in California and elsewhere primarily result from direct and indirect decisions about who should perform the four basic functions discussed above, and exactly

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what tools and approaches are best for accomplishing them. A wide variety of different arrangements are possible. For example, just as the mix of public and private roles can differ between the four basic functions, so can the mix of tools and approaches used differ between them.

**Figure 5**

**Selected Tools and Approaches to Privatizing**

Tools/Approaches	Example
<b>Contracting out</b>	Highway and road construction; running cafeterias
<b>Deregulation</b>	Trucking, airlines, and telecommunications
<b>Franchises</b>	U.S. Department of Agriculture's National Finance Center
<b>Government corporations</b>	Amtrak and U.S. Postal Service
<b>Loan guarantees</b>	FHA/VA and California Housing Finance Agency (CHFA) home loan guarantees; state business loan guarantees
<b>For-profit and nonprofit corporations</b>	Satellites/ground control equipment operation; management/operation of prison facilities; county contracts for operation of primary care health clinics; state contracts for developmental services
<b>Sales of assets</b>	Suggested sale of power plant assets, transmission lines and power capacity of the Tennessee Valley Authority (TVA); sale of government buildings with lease-back options
<b>Tax expenditures</b>	Income tax credits to encourage investment (ITCs); mortgage interest deductions to encourage home ownership
<b>Voluntary services or partnerships</b>	Small Business Administration (SBA) programs involving retired executives
<b>Vouchers</b>	State financial aid grants; child care vouchers; food stamps; various housing programs

**Are the Conditions “Right” to Privatize?**

Much of the promise that privatization offers relates to the efficiencies that can result from the competitive environment in which individuals and businesses function within our society. Among other benefits, this competitive environment tends to allocate resources to their most productive uses (based on the preferences of those in society), encourage efficiency, stimulate innovation, and provide for consumer choice. Privatization proponents argue that the public sector could benefit from having more of these exact qualities.

**What If Strong Competitive Forces Are Not Present?** In order for privatization to produce such beneficial results, however, it generally is necessary for competitive factors to be at work. That is, privatization tends to work best when there is a well-developed and competitive private sector market for the activity under consideration. This may or may not be the case, depending on the governmental activity involved. For instance, many governmental activities are undertaken because the private sector is either unwilling or unable to do them efficiently or effectively. An example of this includes the case of true public goods, such as national defense, and cases where “market failures” are a major problem, such as with certain utilities and transportation systems. In the latter cases, government involvement is sometimes necessary and can take the form of regulation or a more direct role in providing services.

If competitive forces are not present, privatization may not result in services being provided more effectively and efficiently. In the worst cases, services may actually become more costly and quality may deteriorate, absent competitive forces.

**Try to Make Government a Competitor.** It has been noted that one effective means of ensuring that imperfectly competitive market conditions do not lead to bad privatization outcomes is to keep government “in the ring” as a competitor. An example of this involves having government agencies bid on projects along with private-sector bidders. By keeping governments involved in ways such as this, the chances can be minimized of outcomes occurring that are worse than had no privatization occurred at all. In addition, this competition will make the public sector itself more effective and cost efficient.

## What Are the Potential Problems and Risks of Privatizing?

As summarized in Figure 6, there are a variety of potential problems and risks that governments face when they privatize. Understanding these potential problem areas and being aware of the risks involved is important for maximizing the likelihood that privatization will be successful. Some of the potential problems and risks that can be associated with privatization are as follows:

- **Accountability.** How can government ensure that it does not “lose control,” but rather retains an appropriate degree of oversight and responsibility for provision of a service being privatized?
  - **Accurate Cost Comparisons.** Government needs to ensure that it accurately projects the savings from privatizing. This requires accurate cost comparisons between providing a given service
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<b>Figure 6</b>
<b>Potential Problem Areas and Risks Associated With Privatizing</b>
<ul style="list-style-type: none"> <li>• <b>Accountability</b></li> <li>• <b>Accurate cost comparisons</b></li> <li>• <b>Realization of benefits</b></li> <li>• <b>Quality control</b></li> <li>• <b>Legal considerations</b></li> <li>• <b>Service disruptions</b></li> <li>• <b>Transitional workforce problems</b></li> <li>• <b>Dismantling of existing institutions and skills</b></li> </ul>

directly by the government and by the private sector. Experience has shown, for example, that many governments overstate the potential financial benefits of privatization by overstating their administrative savings, and by understating the costs of such functions as preparation and oversight of contracts and contractors.

- **Realization of Net Benefits.** What steps are needed to ensure that the potential benefits of privatization are captured for taxpayers? For example, how can government make sure that potential benefits to taxpayers are not shifted to contractors through increased profit margins, overcharging, and corrupt business practices, as has reportedly happened to some governments elsewhere throughout the country?
- **Quality Control.** What steps can be taken to make sure that the desired quality of privatized services is provided and maintained?
- **Legal Considerations.** What is the nature of the state's legal liability for problems relating to privatization arrangements? This issue relates to a number of different legal areas, including tort liability for actions or inactions by a private company with which the state has a privatization arrangement. Legal issues regarding contract law is another potential problem area for governments that privatize.

- **Service Disruptions.** How can governments protect against untimely disruptions in the provision of needed public services by private entities with whom they privatize, either due to lack of adequate performance or withdrawal from service?
- **Transitional Workforce Problems.** How can governments best deal with the practical transition problem of one-time government job losses that will occur when, for example, private sector jobs replace government jobs? One of the strongest obstacles to privatization is often employee unions. Some governments have dealt with this situation by requiring contractors to give laid-off public workers priority when hiring.
- **Dismantling of Public Institutions and Skills.** If privatization shifts the provision of governmental services from existing public institutions and governmental workforce to private parties, what are the short-term and long-term implications of dismantling these institutions and losing these public labor skills, in the event that privatization turns out to be less desirable than initially hoped for?

## CONCLUSION

Privatization is one of the most discussed subjects in government today, and rightly so. Although there undoubtedly are some governmentally provided goods and services that policymakers may wish to continue to have governments directly provide and never privatize, many services directly provided by government lend themselves to privatization in some form or another. This explains why there has been such a spread of privatization activity throughout the world in recent years, and why there are so many different types and forms of privatization evident today, involving an extremely diverse number of services and privatization arrangements. The spread of privatization continues to be evolutionary, as governments are becoming increasingly knowledgeable about the pros and cons of privatization and how to best use this option.

California state government does engage in privatization in a variety of areas at this time. However, it makes sense for the state to look more closely at its privatization opportunities, and determine in what additional areas privatization might make sense. The evidence suggests that carefully managed privatization can, under the right circumstances, provide specialized expertise, save money, and result in improved service delivery. It also shows, however, that poorly managed privatization, or privatization under the wrong circumstances, can lose money and result in poor service delivery.

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It therefore is important that the state approach increased privatization in a deliberate and logical manner, clearly establishing its objectives and choosing to privatize when, how, and where it makes sound economic and policy sense. The state also should take care to be aware of the problems and risks that privatization carries with it, so as to ensure that its privatization decisions will be in the best interests of its citizens. It is from this perspective that the Legislature should evaluate any forthcoming privatization-related proposals.