

TAKING THE HIGH ROAD: LOCAL GOVERNMENT RESTRUCTURING AND THE QUEST FOR QUALITY

**Michael J. Ballard
Mildred E. Warner
Department of City and Regional Planning
West Sibley Hall
Cornell University
Ithaca, New York 14853
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A full copy of this report and a searchable database of the case studies can be found at Professor Warner's Local Government Restructuring web site:
<http://www.crp.cornell.edu/projects/restructuring/>

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EXECUTIVE SUMMARY

All local governments face challenges to improve service delivery. This report outlines two alternative strategies—the "high road" which uses new management innovations to increase internal productivity, and the "low road" which focuses on downsizing and contracting out. While other studies have focused on contracting out, this study provides a longitudinal look at contracting and presents detailed case studies of municipalities, which have brought back in house previously privatized services. These case studies provide empirical evidence on the problems associated with contracting and the potential for internal restructuring as an alternative.

Contracting is costly. Research on problems with contracting out in the for-profit sector is shown to have parallels in governmental contracting. Difficulty of contract specification (especially for complex services), the cost and difficulty of monitoring contract performance, and limited cost savings are some of the problems that cause governments to bring previously privatized work back in house. Broader public values—responsiveness to changing citizen demands, maintaining high standards of public service delivery among the workforce—also can be compromised with privatization.

While competitive bidding is associated with some cases of contracting back in, for many governments' dissatisfaction with privatization was so strong that no effort was made to rebid the contract. In many of these cases new patterns of labor management cooperation within the public sector resulted in improved efficiency and service quality at lower costs than private contracts. Taking the "high road" of restructuring through improved labor-management cooperation can provide better quality service with fewer risks and greater social rewards. For those public officials who truly wish to "reinvent government" internal management reforms deserve a closer look.

Rapid changes in the economy on the one hand and the unrelenting demand for public services on the other have placed new pressures on all levels of government to "banish bureaucracy" and "reinvent" the public sector. Reinventing government is a noble and desirable goal, but many reform efforts have failed by focusing too heavily on downsizing the public workforce through the privatization of government services. While privatization can take many forms, the most common practice is for governments to "contract out" services to private organizations. In these situations the government continues to use public funds to pay for services, but the responsibility for production of the service is shifted to a private firm.

In some instances, privatization through contracting out is part of a larger ideological crusade to reduce the absolute size of government.¹ In other cases, contracting out is driven by management fads imported from the private sector, where the practice is commonly used but remains poorly understood.² A third influence is the general shift in American society towards greater mistrust of government coupled with a renewed faith in the textbook model of free markets.³ When combined with advice from popular management books and magazines to

become more "businesslike" in their operations, many public managers find the lure of contracting out to be irresistible.

Are the proponents of contracting out right? To what extent have the economic and organizational benefits actually followed? This study attempts to answer these questions by looking at local governments' experiences with contracting in the United States. The report begins with a review of several academic studies that assess the impact of contracting out on individuals, organizations, and communities. Unfortunately, many of these studies show disappointing results with contracting out in both the public and private sectors. To better understand why contracting out often has not lived up to its promise, this report looks at several case studies from across the country where public officials have chosen to bring work back in house following a period of privately produced service. Finally, the report looks at one important but underutilized alternative to privatization, namely, the refashioning of labor-management relations through innovative "partnership" programs. These programs demonstrate that the efficiency of public services can be improved significantly through the use of internal management reforms. Given the risks involved in privatization, labor-management partnerships should be

given priority over contracting out when public managers see the need to restructure local government services.

Contracting out imposes high costs on individuals

Proponents of contracting out argue that both public and private organizations need to "cut the fat" and get "lean and mean" in order to survive.⁴ Given that most government services are labor-intensive, contracting out services provides government with an indirect method of reducing the number of individuals it employs directly. When hiring decisions are no longer in public hands, privatization allows contractors to use lower priced labor without having to adhere to civil service wage scales. Government-by-contract also permits greater flexibility in determining employment levels, work rules, and health and safety standards since private firms are often subject to less restrictive regulations than public entities.⁵

Increased flexibility, however, comes at a price. To begin with, contracting out imposes high costs on individual workers. The overwhelming majority of government employees are individuals who have performed well and played by the rules, but often pay dearly in the form of increased job insecurity and lower wages and benefits when work is contracted out to the lowest bidder.⁶ Furthermore, because of the specialized nature of many private contractors, workers' opportunities for advancement and training may decline as well. The janitor who works for local government may, over time, work her way up in the system via a series of vertical and horizontal moves through different departments. In organizations that specialize in just one service, however, those ladders of opportunity

disappear for all but the most skilled employees.

Contracting out has society-wide consequences

Contracting out also imposes high costs on society. It is no secret that America's urban areas suffer from a host of serious social and economic problems, ranging from crime and unemployment to racial segregation and increasing class inequality. In a provocative and insightful essay published in the *Boston Review*, Daniel Luria, Vice President of the Michigan Manufacturing Technology Center, and Professor Joel Rogers of the University of Wisconsin contend that these unfortunate outcomes are the direct result of public policy choices that favor "low road" development strategies in response to new competitive pressures.⁷ Low road employers compete by keeping costs, and therefore wages, as low as possible. When low road strategies dominate the local economy, economic insecurity, rising inequality, and poisonous labor relations often follow.

In contrast, "high road" organizations rely on better quality products and superior service to stay ahead of the competition. Management experts contend that emphasizing quality and service requires a well-trained and highly committed workforce in order to be successful. These organizational demands, in turn, translate into higher wages, cooperative labor relations, and more innovative and productive workplaces. In addition, high road employers attract superior quality workers and typically serve as better corporate citizens in the communities in which they operate.

Box 1. Taking the Low Road: Privatized Trash Collection in New Orleans

In the mid-1980s, the City of New Orleans, Louisiana paid sanitation workers about \$9 an hour and provided health insurance and other benefits. Ten years later, after privatization, those same workers are hired on a daily basis, paid the minimum wage, and have no benefits.

Waste Management, Inc., the firm responsible for trash collection in New Orleans, uses a subcontractor to fill its daily need for "hoppers," sanitation workers that dump trash into the back of garbage trucks. Hoppers receive no training from the company, and are responsible for providing their own safety equipment such as lifting belts, face masks, and safety vests.

Some hoppers meet their drivers in the truck yard, but most are picked up under a nearby freeway each day at six o'clock in the morning. A full day's pay is not guaranteed, and a truck breakdown can leave a hopper stranded and unpaid.

Waste management's treatment of its employees had gotten so bad that in one month the company missed pickups at 8,800 locations because it didn't have enough hoppers to collect the trash. In response, the city threatened to fine Waste Management \$280,000 for the uncollected garbage.

The hoppers' performance has come under strong criticism as well. According to city officials, it is not uncommon for hoppers to demand tips or beer in exchange for picking up a resident's trash. Even the city's sanitation chief says she and her family were threatened after refusing a hopper's demand for cash.

Source: "Two-Edged Sword: More Public Workers Lose Well-Paying Jobs as Outsourcing Grows", *The Wall Street Journal*. August 6, 1996. p. A1.

While Luria and Rogers' research primarily looks at the business strategies of private companies, the same lessons apply to public sector employers as well. Governments, like private firms, also consciously choose to follow the high road or the low road when making employment and contracting decisions. Local governments can walk down either path, but the potential benefits to both the city and the community are vastly greater on the high road. Public officials who choose to follow the high

road not only benefit directly from the efficiency gains that flow from high-performance workplaces, but they also benefit indirectly from the important social benefits that such a strategy produces. In general, high-road strategies are strongly associated with healthy and stable local communities. Strong communities, in turn, help to attract and keep the brightest people and the most dynamic businesses in the region.

Examples of how high road and low road strategies play out at the local level are presented in Boxes 1 and 2. In these cases, both New Orleans and Portland saved money by restructuring traditional service delivery methods. Portland's high road strategy, however, accomplished much more than simple cost savings. Building upon Portland's success in constructing a new baseball stadium, the city and its unionized workforce have been able to create a new level of trust and cooperation across a wide range of public services. In addition to reducing expenses, the

introduction of innovative management reforms has produced major service improvements, has strengthened both management and the union, and has resulted in a far less adversarial bargaining relationship than had existed previously. In contrast, the New Orleans case vividly illustrates the dark side of low road management strategies. While New Orleans' strategy may have saved the city money, the negative impact of such a strategy on residents' quality of life far outweighs any cost savings that resulted from privatization.

Box 2. Taking the High Road: Investing in Employees in Portland, Maine

In 1992 public officials in Portland, Maine succeeded in attracting a minor league baseball team to the city. At the time, however, the city faced a major league problem: it had no adequate facility for the new team to play, and lacked the funds necessary to hire a private contractor to do the job.

In response to this opportunity, the City Manager's office and union leaders jointly developed an innovative plan to construct the new stadium using Public Works employees and equipment. The plan involved 10-hour work days and an incentive program that rewarded employees based on productivity levels. Similar agreements were negotiated for employees not assigned to work on the new stadium since they were now required to provide the same level of service with fewer employees during the seven months it took to construct Hadlock Field.

The Hadlock Field construction project was so successful that the city created its own in-house construction company. The construction company is guided by the same principles that made the stadium so successful: teamwork, cross-training, labor-management cooperation, flexible work schedules, and employee bonuses for meeting project cost and quality objectives.

Projects tackled by the construction company included rebuilding sidewalks, street construction and maintenance, and sewers. The city is in the process of expanding the range of work projects tackled by city crews, and expects to take on more projects each season in the future.

Source: Patricia Peightal, et al., "Labor-Management Cooperation—City of Portland, Maine". *Public Personnel Management* 27(1) Spring 1998. pp. 85-91.

The benefits of contracting out have not materialized

As the preceding discussion makes clear, the individual and social costs of contracting out can only be justified if such efforts lead to better quality and lower priced government services. Yet evidence from a broad range of studies suggests that public services do not substantively improve after contracting out.⁸ In an extensive review of empirical studies of privatization in the United States, for example, Professor George Boyne of Cardiff University finds that "only around half" of all studies are associated with lower spending and greater efficiency.⁹ Furthermore, Dr. Boyne finds that "many of the studies contain specific methodological flaws that cast doubt on the validity of the evidence on the impact of service contracts, and in some studies, the authors draw conclusions that are not substantiated by their own evidence."¹⁰

Professor Boyne's claims are substantiated by Professor Janet Rothenberg Pack of the Wharton School of Business at the University of Pennsylvania.¹¹ In her research on fifteen cities and counties that had experimented with contracting out, about half of the places she studied had encountered "disruptive experiences" which included quality problems, attempts by firms to renegotiate or renege on contracts, and costly monitoring activities. Equally important, only half of the public officials she interviewed could continue to claim any cost savings from contracting out after just four years of privately provided service.

Researchers at Washington State University draw similar conclusions in their 1998 study of privatization by

Oregon county governments.¹² Looking at county governments' experiences with road maintenance and construction contractors, Professors Brent Steel and Carolyn Long find that 42 percent of counties experienced contracting problems. The most commonly cited problem in their study was the failure of contractors to perform work in a timely manner (100 percent of cases), followed by work not performed to specifications (50 percent), contractors' failure to communicate effectively with affected citizens (36 percent), change order problems (36 percent), and work area security and safety problems (29 percent). In addition to the problems associated with contracting out, the authors estimate that the cost of contract administration was in the 10 to 15 percent range, and that "savings, if any, from contracting out may be partially or fully offset by substantial agency costs associated with the contracting process, including the expense of preparing plans and specifications to a greater level of detail, the cost of advertising and processing bids, and the cost of monitoring, inspecting, and conflict resolution."¹³

Private firms also disappointed with contracting results

A common defense of privatization is that errors in implementation, not the concept itself, are to blame for failed privatization programs.¹⁴ These kinds of arguments make it easy to claim that the blame for failed contracts still rests with government, and that the solution lies with increasing, not decreasing, the role of the private sector in government service provision. Has the private sector's experience with contracting out been any better? Because private firms

also rely on outside contractors for a wide range of goods and services, their experience with contracting out deserves a closer look by public officials than it has received.

Large-scale studies of the private sector's experience with contracting out are rare, in part because private firms are not subject to the same disclosure requirements as public entities. A recent survey of over one thousand senior business executives conducted by the global consulting group PA Consulting, however, is telling: In that survey, only five percent of firms reported "high" levels of benefit from contracting out while suffering "low" drawbacks. The most common response, representing thirty-nine percent of the cases, had been 'mediocre'."¹⁵

Academic studies of organizational performance provide some clues as to why contracting out in the business world has failed to live up to its promises. Because contracting out is a form of restructuring that often leads to reductions in personnel, its impact on organizations is similar to downsizing. Few would disagree with the proposition that both contracting out and downsizing result in shattered careers, broken friendships, and significant losses in investments in employee training and development. For these reasons and others, academic studies of downsizing hold valuable lessons for public sector managers considering contracting out.

The strong negative effect that downsizing through contracting out has on the morale of employees should not be underestimated. In a recent study

published by *The Academy of Management Review*, Professor Wayne Cascio of the University of Colorado reviewed over five hundred articles on downsizing and interviewed twenty-five senior executives from business about their experiences.¹⁶ A principal finding from this research, says Professor Cascio, is that "study after study shows that following a downsizing surviving employees become narrow-minded, self-

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absorbed, and risk averse. Morale sinks, productivity drops, and survivors distrust management. In fact, this constellation of symptoms is so common that it has taken on a name of its own: *survivors' syndrome*."¹⁷ Given the impact of

downsizing on employee morale, it should be expected that performance rarely meets the company's expectations. According to 1998 survey results from the American Management Association, only 41 percent of downsizing companies reported productivity increases, and only 37 percent have realized any long-term gains in shareholder value.¹⁸

According to Professors Susan Reynolds Fisher and Margaret White, such disappointing results can be explained by the damage caused to an organization's "learning capacity" when an individual leaves the firm.¹⁹ Fisher and White believe that an organization's capacity for innovation and development is derived from the day-to-day interaction between employees working on common problems. The contribution of these informal networks to the health and vitality of the organization is

significantly greater than that implied by a simple head count, the authors warn, and hence managers should be wary of any restructuring effort, including contracting out, that threatens these crucial networks.

This issue is well illustrated by recent research by Dr. Chris Lonsdale and Professor Andrew Cox of the Center for Strategy and Procurement Management at the University of Birmingham, England.²⁰ Lonsdale and Cox believe that contracting out invariably leads to a loss of cross-functional contact between departments. "When a contract company is operating away from the firm's site there can be a loss of profitable contact between that function and others which relate to it," they argue. "While this can be addressed, many firms report that contract employees are rarely as prepared as in-house colleagues to go beyond their immediate remit and take the time to work out ideas which may be of benefit to the firm as a whole."

A further issue that Lonsdale and Cox raise is the effect that the limitations of a manager's own knowledge and competence can have on an outsourcing deal. For example, when a service is provided in-house certain aspects frequently are provided by employees in other parts of the organization, and consequently often are not recognized explicitly in the contract agreement. This oversight commonly leads to a host of additional charges not built into the original cost estimates. In one example, the authors tell the tale of a petroleum firm that was charged nearly \$500,000 in

excess fees in the first month of its information technology contract because the company had wrongly assumed that these services were included in the original contract price.²¹ Stories such as these should not be surprising, the authors caution, because contracting is the core competency of many of the vendors that organizations must deal with. Since contracting is a primary focus of their business, these companies have learned to write contracts that shift most of the risk onto the purchaser of the service.

In summary, contracting out government services imposes high costs on individuals, local governments, and communities. In spite of these high social costs, the efficiency gains from contracting materialize only about half of the time. Furthermore, the private sector's poor record with contracting suggests that such lackluster results are unlikely to improve as public managers gain experience with administering private contracts.

In contrast, using high road strategies to reform public bureaucracies often results in improved governmental efficiency, but does so without the negative consequences that result from contracting out. Across the country, high road strategies are becoming more common as public bureaucracies borrow from new management models such as Total Quality Management (TQM) and labor-management cooperation programs in order to improve organizational performance. According to *Working Together for Public Service*, a major report published by the U.S. Department

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of Labor, labor-management cooperation programs typically result in higher quality service, greater cost effectiveness, better quality of work life for employees, and improved relations between workers and management.²² Similar positive results have been reported by the International City/County Management Association (ICMA) in its study of TQM programs in local government. In that study, the overwhelming majority of governments surveyed reported strong positive results from quality improvement programs, as Table 1 shows.²³

"Contracting back in" an important trend in public service provision

New survey evidence shows that public officials are starting to learn that

privatization has its limits. While contracting out continues to be widely used by many local governments, the practice of "contracting back in"—where governments choose to resume in-house production following a period of privately produced service—is becoming increasingly common.

The most complete source of data on contracting arrangements of local governments is provided by the International City/County Management Association (ICMA). Every five years, the ICMA surveys all counties with more than 25,000 residents and all cities with populations greater than 10,000. In addition a sample is drawn from one in eight cities and counties with fewer than 10,000 residents. On average, 1,500 municipalities respond to the survey.

Table 1. Impact of Quality Improvement Efforts on Municipal Performance	
Performance indicator	% reporting positive experiences*
Quality of service	89%
Productivity	85%
Customer satisfaction	83%
Amount of service to customer	82%
Timeliness	79%
Cost reduction	75%
Increased communication	84%
Improved group decision making	78%
Stimulated high-quality performance	61%
Ability to improve in spite of constraints on resources	70%
Improved decision making due to availability of information	70%
Improved timeliness of internal processes	63%
Movement of decision making to lower level	68%
Commitment to stakeholders	72%
Morale	70%
Goal assessment	57%
New performance measures	72%
*Sample size varies from 168-191 cities and counties.	
Source: Jonathan West et al, "Total Quality Management in Local Government", <i>The Municipal Yearbook</i> 1994. Washington, DC: International City/County Management Association. p. 24.	

This survey provides a very comprehensive view of the complex mix of services offered by local governments, with questions asked for sixty-four different public services.

By matching responses from different survey years, our research team has been able to determine the degree to which local governments both contract out services to private providers as well as the frequency of contracting back in.²⁴ Using ICMA data we found that on average across all responding municipalities, eight services were newly contracted out between 1992 and 1997. The more interesting finding, however, was that on average five services were brought back in house during this same period. Hence while these data show that contracting out is still a common practice across the country, dissatisfaction with contracting out is widespread and causes local governments to bring services back in house.

Why do local governments choose to bring work back in house?

That so many local governments bring work back in house implies that contracting out as a model of public service provision has its own set of problems that its proponents have either underestimated or ignored. Yet the survey data alone do not tell us why governments choose to resume public production of services. To better understand the nature of contracting back in and the factors associated with it, a series of telephone interviews was conducted with public officials from across the country between June and August 1999. The case studies from those interviews are reprinted here as Appendix A.

Methodology

Using the ICMA data as a guide, local governments were selected for interviews based on a population of greater than 30,000 residents, six or more cases of contracting back in, and at least one case of contracting back in for service areas where union membership is strong. A small number of additional cases were chosen based on leads from union members or newspaper clippings.

Most of the interviews were with the city or county manager for that municipality. On several occasions follow-up interviews were conducted with department heads or directors of specific programs in order to develop a more detailed understanding of a particular program or service. Local union officials also were interviewed in a handful of cases. Interview times varied from ten minutes to about one hour.

In total, public officials from fifty-eight places were interviewed. Those interviews produced twenty-six cases of contracting back in from twenty-two different places (see Table 2). While these cases do not provide a large enough data set to generalize the findings to the larger population, the cases can help us to understand the rationale behind contracting back in, as well as provide clues on the efficacy of privatization as an alternative form of public service delivery.

The bulk of the cases of reverse privatization represent the typical kinds of blue-collar work most often cited as good candidates for contracting out. With the exception of public works, wastewater treatment, and fire services, the remaining cases consist of the types of services for which private sources of production are relatively common. In most areas these services can easily pass

the "yellow pages" test in which a number of local private firms can be found that offer similar services.²⁵ It should not be surprising that the cases here represent services that are typically thought of as prime targets for privatization. Since these are the kinds of services that are most often contracted out, it follows that they have a higher

nine cases contracting back in was the result of public employees submitting the winning proposal in a competitive bidding process. On twenty occasions work was brought back in house due to problems with the private contractor. Often the two categories overlap. For example, it is not uncommon for public agencies to win competitive service

Place	Service(s)	Competitive Bidding	Failed Contract
Akron, Ohio	Road Repairs	n/a	n/a
Ardmore, Oklahoma	Waste Water Treatment Plant		⊗
Campbell, California	Buildings and Grounds Maintenance		⊗
Charlotte, North Carolina	Paratransit Service	⊗	⊗
Cincinnati, Ohio	Yard Waste	⊗	
Columbus, Ohio	School Grounds Maintenance		⊗
Fort Collins, Colorado	Paratransit Service		⊗
Fort Lauderdale, Florida	Infrastructure Pipe Installation	⊗	
Independence, Iowa	Grass Mowing, Laundry Services	⊗	⊗
			⊗

probability of being brought back in as well.

A useful way of classifying the cases is to divide them according to the process by which local government resumed public service production. In

contracts following a failed privatization attempt. The more typical scenario, however, is for government officials to take over the service without initiating a new round of competitive bidding. In fourteen cases, it was clear to local

government managers that the service could be produced more efficiently in house, thereby making competitive bidding unnecessary.

Contracting Back in Due to Failed Privatization

In the cases presented here, failed privatization was the most important reason for contracting back in. In these instances the work is brought back in house due to problems associated with the service provider or with the contracting process. Rather than return to the market and initiate a new round of competitive bidding, public managers caught in these situations feel that problems with service delivery are rooted in the contracting process itself. Because these kinds of problems can not be solved by private means, public officials choose to rule out privatization as a viable alternative and resume public production of the service.

Every case that chose to bring the service back in house without resorting to competitive bidding reported significant contracting problems. Yet even for those places where competitive bidding was used (and the contract awarded to public employees) problems with private contracts still played a role in five of nine cases. While it is difficult to generalize from such a small sample, there appear to be serious problems with contracting out. The analysis below looks at a number of the case studies to better understand how and why contract problems arise and, more importantly, why public production is chosen over competitive bidding for specific services.

Contracting Issues

Private sector models of contracting out provide a useful

framework for understanding governments' decisions to produce services in house. For businesses, the choice of whether to produce in house or to contract out is often referred to as the "make or buy" decision. While cost minimization is important, this approach also recognizes that cost estimates include more than just the monetary value placed on a good or service. In particular, this model employs the notion of "asset specificity" to incorporate the many non-tangibles that go into the decision to contract in or out.²⁶ Asset specificity refers to the degree to which the investments associated with production are unique to the parties involved in the transaction. Investments with a high degree of asset specificity are highly specialized and normally have few alternative uses. Examples include "hard" goods such as complex machine parts or custom-made computer programs, but "soft" goods like industry-specific knowledge and relationships with customers and clients fall into this category as well.

A high level of asset specificity decreases the probability that an external supplier will be able to produce a particular good or service in a cost-effective manner. Because of the inability of both the buyer and the seller to accurately specify what, when, and how certain functions are to be carried out, costs associated with monitoring quality often outweigh any savings that accrue from external production.

These problems are magnified in the public sector because of the multiple purposes and goals associated with public services. While it is relatively easy for a buyer to recognize a high quality pencil or machine part, judging quality becomes much more subjective when complex services are involved.

Even for the cases presented in this study, where most of the services are simple, ubiquitous, and relatively easy to specify, numerous examples exist where conflicts arose because of the difficulties associated with specifying the service.

While evidence from some of the cases suggests outright abuse by the private contractor—such as the Iowa laundry service that charged its public sector customer based on the weight of the laundry when it was wet, not dry—other cases highlight the importance of clearly defined contracts. In Lubbock, Texas, for example, a private trash hauler attempted to renegotiate its contract because the weight of the trash it collected was greater than the company anticipated. Heavier loads meant that the company had to pay higher than expected landfill fees, and the firm attempted (unsuccessfully) to shift those costs to local government.

The care management program for the Senior Services Department of Irvine, California serves as a more complex example of the difficulties involved in specifying contracts. In Irvine, public officials attempted to privatize its care management program in 1995. With about one hundred active cases at any given time, the city offers assistance to seniors in need of help with health care, transportation, housing, and other social services. In spite of a competitive bidding process, the request for proposals attracted only one bidder that the city felt was sufficiently qualified to run the complex program. After reviewing the technical responsibilities contained in the contract, however, the lone qualified bidder chose to withdraw from the competition. The perception

Professor Pack of the Wharton School estimates that monitoring costs can be as high as 15 percent of total contract costs.

was that many of the contract services were hard to measure, difficult to administer, and that performance would be judged largely on community perceptions rather than tangible results. This created a sense that the cost to administer the program would grow far beyond the ability of the contractor to manage the program within the available budget. Unable to attract qualified contractors, department administrators instead chose to keep the service in house.

A related problem is that the contract language may be over-specified. Under these circumstances, contract language may be too specific to allow government to satisfy the changing needs of citizens. When Moore, Oklahoma contracted out its public works department in 1993, it made sure that minimum service levels were included in the contract. When citizens began demanding more than the minimum from their government in the mid 1990s, however, the city was unable to accommodate citizens' preferences because it was still bound by the strict terms of the contract

it had signed three years earlier.

Another issue that is well illustrated by the Moore, Oklahoma case is the problems that occur when a single contractor is responsible for a complex basket of services. In Moore, one company was responsible for streets, drains, parks, cemeteries, building maintenance, sanitation, fleet maintenance, animal control, wastewater treatment, water and sewer line maintenance, and water meter reading. The sheer size of this contract made it

exceedingly difficult for public officials to monitor service levels and quality.

Given the complexity involved in specifying contract arrangements it should not be surprising that the costs associated with monitoring contracts has been shown to be quite high.²⁷ The more typical scenario, however, is for governments not to do any monitoring at all. In our research team's analysis of ICMA survey data on the subject, we found that more than half of the governments that contract out do not have any formal procedures for monitoring contract arrangements.²⁸ Not monitoring contracts significantly increases the chances that either costs increase or quality suffers—or in some cases, both problems may surface. On the other hand, places that do take monitoring seriously may find that the cost of monitoring contracts equals or surpasses any anticipated savings from private service delivery.

More than one respondent from the case studies indicated that in house production was resumed because of the high costs of monitoring private contracts. In Pinellas County, Florida, for example, the county terminated its contract for grass mowing at 360 water pumping stations because of its inability to control service quality. "Servicing so many remote locations made it very difficult to monitor service quality, says the County Administrator, "so for this service it made more sense for the county to do the job."

City officials in Campbell, California report similar problems. In Campbell, the city contracted out its park maintenance functions in the early 1990s as a way to cut costs. After two years with the private contractor, however, the city chose to bring the work back in house following numerous

complaints from city residents about service quality. Having residents complain to the city rather than the contractor resulted in significant time and resources being wasted by city employees. Not only were city employees required to handle residents' complaints, they then had to visit the park in question to check up on the contractor's work, contact the contractor to inform him of the problem, and finally revisit the park to ensure that the work had been re-done properly. Given that the number of complaints was significantly higher than when public employees did the job, city supervisors quickly grew tired of the extra burden created by the contracting process and brought the work back in house.

Park maintenance has remained a publicly provided service in Campbell since 1996. According to City Manager Bernie Strojny, city workers provide better service because they possess a sense of ownership that is unique to public employees. "City employees invest more," he says, "because they genuinely care about the place they work at." In contrast, city properties are just one of many locations that the private contractor serves, which Strojny believes contributes to the contractor having less of an interest in service quality.

In both Pinellas County and the City of Campbell monitoring costs were high because public officials found themselves constantly "putting out fires" that had been "lit" by the contractor. Both places were lucky, however, in that the service in question was relatively easy to monitor by area residents. In these cases, citizens are able to serve as reasonable substitutes for direct monitoring by government. The public sector is not so fortunate, however, when service quality cannot be observed

directly and citizens are unable to play the watchdog role. This was the case in Savannah, Georgia, where fire services had traditionally been provided by both the City of Savannah and South Side Fire Protection, Inc., a non-profit fire department that provided firefighting services to about one third of the city.

South Side Fire consisted of a mix of volunteer and professional staff and had served Savannah's southern neighborhoods for decades. When the city annexed South Side Fire's service area in the 1970s, the company continued to provide fire services to this part of the city. As Savannah continued to grow, concerns were raised about the differences in service quality between the City of Savannah Fire Department and South Side Fire. Whereas previously the South Side consisted mainly of single family housing, over the years the South Side grew to include a number of large retail and office complexes. Responding effectively to these types of calls required a different method of firefighting than what South Side could offer. The number of city firefighters responding to calls was always the same, for example, whereas the number of South Side volunteers that responded to calls varied at each event. Over time the city increasingly became concerned with service quality and response times on the South Side. Tellingly, one of the most vocal proponents for change was the city council representative from the South Side, who argued that the quality of service was inferior to that offered by the city.

Conflicts over what should be considered quality service were only half of the problem. Just as important, the cost of the service had risen significantly over time. The city found itself paying

for equipment and stations "over and over again," and the company would increase its charges to the city on a yearly basis. The extent to which South Side fire was overpriced relative to the city was made clear when City Council decided to bring the service in house in early 1998. In a last-ditch effort to save its business, the company offered to provide the service at a significantly lower price than what it was currently charging. This sudden drop in price only angered city officials, who wondered how much, and for how long, this "non-profit" organization was overcharging them.

In sum, the Savannah case makes clear the difficulties associated with contract arrangements where service quality is hard to monitor and the true costs of the service are difficult to quantify. But even in other service areas where quality and price considerations are easier to measure, the time and resources spent on monitoring can still be significant. The degree to which these additional costs outweigh the potential efficiency gains of private production is an empirical question that can only be answered on a case-by-case basis. The evidence presented here, however, suggests that these costs are often considerably higher than most governments anticipate.

Economic and Market Issues

Much of the preceding analysis presumes that, contracting costs aside, privately produced services are cheaper. Indeed, lower costs were the primary reason most governments in this study choose to contract out in the first place. Lower costs, however, usually resulted in lower quality services as well. Research by Harvard University Professor John Donahue suggests that

much of the cost savings from privatization come from local governments choosing to follow low road economic strategies that rely on the lower priced labor of private firms.²⁹ If we make the reasonable assumption that lower priced inputs result in lower quality outputs, then it should not be surprising that service quality was a major problem in a majority of the case studies.

In both Charlotte, North Carolina and Fort Collins, Colorado local governments ended private contracts for paratransit service for the elderly and disabled because of service quality problems. In Charlotte, the taxi company responsible for the service was not accustomed to working with disabled clients, and drivers viewed city charges as less desirable passengers compared to other customers. The program was plagued by similar problems in Fort Collins, where users of the service often complained about the lack of courtesy on the part of drivers. Additionally, the private contractor had numerous problems attracting and retaining quality employees, resulting in unreliable service.

The City of Whittier, California, attempted to privatize its public bus service in the early 1990s. At the end of the five-year contract, however, the city chose in house production over a new round of competitive bidding, citing poor service quality as the primary reason for the switch. The city received numerous complaints about dirty buses and unqualified drivers. Equally important, the expected cost savings from privatization quickly disappeared because of significantly higher accident

rates and greater than expected costs for vehicle repairs.

The above examples of privatized transit service all relied on lower priced labor to minimize costs.

Yet, in every case the low cost option proved to be unsustainable over the long run. Either quality levels slipped to

such unacceptable levels that the service was no longer a benefit to citizens, or else the problems resulting from low cost provision (e.g., higher accident rates and increased liability claims) effectively erased any financial benefits from private service delivery.

An important related issue is the degree to which local governments can accurately judge when private service delivery is cheaper. Anecdotal evidence from the case studies suggests that pricing contracts is more art than science. This should not be surprising given the uncertainty that surrounds contracting, but what is surprising is the degree to which contract bids vary. In Charlotte, North Carolina, for example, bids on paratransit service ranged from \$12.60 to \$20.49 per trip. In Lubbock, Texas, bids for a portion of the city's residential trash routes varied from \$3.6 million to \$7.3 million—a difference of nearly 103 percent.

Figures like these suggest three things. First, sufficient competition is critical to cost savings when competitive bidding is used. Second, it is imperative that local governments who use competitive bidding allow public departments to participate in the bidding process so that costs can be properly benchmarked. Finally, if a public service is privately provided, it is crucial

Anecdotal evidence from the case studies suggests that pricing contracts is more art than science.

that public officials pay close attention to monitoring the price, quality, and quantity of the contractor's work throughout the term of the contract. The following section examines more closely the cases that involved competitive bidding.

Contracting Back in Due to Successful Competitive Bidding

A key variable for explaining the likelihood of contracting back in is whether or not public employees are allowed to bid against private providers. Quantitative analysis of US Census data from 1987-1992 shows that the presence of unionized employees increases the probability of contracting back in.³⁰ This finding suggests that unionized workplaces are more likely to have the right to submit contract proposals, but bidding rights for public employees are increasingly common in non-unionized settings as well.³¹

The rules governing the public sector's ability to bid on contracts vary considerably from place to place. In Pinellas County, Florida, for example, public employees are allowed to compete with private providers when a service is first put out to bid. Once that contract is "lost" to the private sector, however, only private firms have the opportunity to bid on future contracts. The county sees the start up costs associated with bringing a service back in as too expensive to be worth the effort. Not only would the county have to hire new employees to provide the service, but new equipment and buildings may be required as well.

Making city departments competitive means providing them with the resources necessary to assemble quality bids.

Other places view the bidding process differently. In Charlotte, North Carolina, it is the norm for public employees to bid on contracts, and the city expects its departments to be competitive in the bidding process. Making city departments competitive means providing them with the resources necessary to assemble quality bids. In many cases, this includes allowing managers to hire outside consultants to help develop the department's proposal. Cases where services are kept in house are viewed as "victories" for the city, and are a source of pride for public employees.

A third example of how the bidding process works can be found in Lubbock, Texas. In Lubbock residential trash collection is subject to competitive bidding, and public employees are encouraged to bid for the service. What makes Lubbock different than most places, however, is that only one third of the service is put out to bid at any given time, and the City would never choose to privatize the whole service. "We would always keep at least one third of the service in house," says Mildred Cox, the Director of Public Works. "This way we never lose the ability to keep the private firms on their toes. Just as important, having competitive bids provides the city with important information about what constitutes efficient service."

Taking the High Road Through Public Sector Innovation

The fact that government departments often win competitive contracts highlights the ability of the public sector to improve efficiency

through the use of high road management practices. There is ample room for increased efficiency in public provision so long as employees are empowered to make decisions on how the service should be delivered. By drawing on the expertise of front line workers, innovation in the design of work leads to significant cost savings. Theories of organization development concur that line employees often know how to do their jobs best, and will excel at what they do if given the chance by management.³² For public employees dealing with complex services and the need to keep a wide array of constituents satisfied, this is even truer.

Many of the cases of contracting back in were tied to process improvements in public management. As such, they demonstrate public innovation is a viable alternative to private provision. Often small changes can lead to significant savings. In Warwick, Rhode Island, for example, management and the union worked together to redesign the way residential trash is collected, resulting in savings of over \$1.1 million over five years. In Akron, Ohio, city workers developed a plan to combine water and sewer line repairs with road repairs. "Why do the same work twice?" asks union president Leo Armstrong. "If we're already there repairing the hole, we might as well finish the job. Not only can we get the job done faster, but it saves the city money, too."

In other cases, efficiency gains were the result of specific management practices being brought in from the

private sector. In Charlotte, North Carolina, managers of the city's paratransit service instituted a gainsharing program for its employees that resulted in savings of over \$160,000 in 1998. Half of this money will be divided equally among the department's employees, which amounts to an annual bonus of \$1,600 per employee, or about seven percent of an employee's total pay.

Labor-management cooperation programs can have a significant impact on improving efficiency in unionized settings. In Fort Lauderdale, Florida, "partnership" programs between labor and management have resulted in a number of competitive bids being awarded to public employees. Fort Lauderdale's partnership programs are a product of the Cooperative Association of Labor and Management (CALM), an innovative program that employs the concepts of total quality management to increase productivity and promote cooperation and understanding between the union and city administrators.

One example of CALM's impact comes from the city's attempt to privatize infrastructure pipe construction in early 1997. When the Request for Proposals was issued, a labor-management committee quickly formed to prepare its bid for the competition. The committee was co-chaired by the union president and the director of labor relations for the city, who together co-chair all partnership committees. Having these two established veterans on the committee "helps to create a safe

The fact that government departments often win competitive contracts highlights the ability of the public sector to improve efficiency through the use of "high road" management practices.

environment for our people," says union president Cathy Dunn. This way we can establish trust among all parties early on, and get to the real work of developing our proposal." In addition to the co-chairs, the committee consisted of a supervisor, division manager, and four crew members. Each committee member is encouraged to participate fully in the development of the proposal, and any member has the right to veto elements of the plan that they don't like. "All it takes is one 'no' vote and the project stops," says Dunn.

The CALM committee won the contract by submitting the lowest cost bid. Public employees were able to beat the competition by restructuring how the service was delivered. Work schedules were changed to reduce travel and set up time, and the size of the pipe crews doubled, following the example of successful private firms that do the same work. The results of these changes have been dramatic: In the first year alone, city crews laid over three and a half miles of pipe, compared to an average of just one mile of pipe for privately-run crews.

The above examples clearly demonstrate that the public sector can be as effective if not more effective than firms in the private sector doing similar work. In every case, the key to public sector success is empowerment. When workers are provided the tools and the resources necessary to bring about

change, innovative policies and programs often follow. Privatization and empowerment, however, are rarely compatible. When employees are mistrustful of management, when job security is uncertain, and when departments see their colleagues' jobs sold to the lowest bidder, convincing workers to "buy in" to *any* new program is a daunting task.

Conclusion

The evidence presented here indicates that the contracting process is rarely as smooth as its proponents claim. Often poor results were due to the inability of either governments or private contractors to clearly communicate their expectations to each other. On other occasions, disappointing results were the outcome of one party or the other underestimating costs or overestimating savings from privatization. For a third group of cases, contracting back in was not the result of failure on the part of private firms, but rather successful innovation by public employees.

The latter findings suggest that taking the high road, in the form of TQM or labor-management cooperation, can provide equal or better quality service as the best private firms, but do so with fewer risks and greater social rewards. For those public officials that truly wish to "reinvent government," internal management reforms deserve a closer look than they have been getting.

APPENDIX A

CASE STUDIES OF CONTRACTING BACK IN*

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*A searchable data base of these case studies can be found at Professor Warner's Local Government Restructuring web site: <http://www.cce.cornell.edu/community/govt/restructuring>

City of Akron, Ohio

Keywords: Public Works

Road Repairs

In Akron, Ohio city workers dig up the pavement at over 1,200 locations each year to make water and sewer line repairs. When the repairs are finished, workers put a temporary patch over the damaged pavement. In the past, private contractors would then move in to resurface the road.

For the past two years public employees have done the resurfacing work, and saved the city over \$500,000 in the process. “Why pay to do the same work twice?” asks AFSCME Local 1060 President Leo Armstrong. “If we’re already there repairing the hole, we might as well finish the job. Not only can we get the job done faster, it saves the city money, too.”

The city used to spend about \$800,000 a year for the service, and when the money ran out, the resurfacing stopped. This often meant that many of the repairs were never completed. Today, all the city’s road resurfacing jobs get done, and at a significantly lower cost than what the city used to pay.

“We’ve become a trend-setter in the area,” says Armstrong. “Other city departments are looking at what they can bring back house since what we’ve done here has been so successful.”

Now even other local government workers are looking at taking on new jobs. In nearby Summit County, for example, road crews there just took back road striping after several years of privately provided service.

“It’s truly a win-win situation,” Armstrong says. “The payoff for our members is greater job security, and citizens get the best service at the lowest cost.”

Case based on interview with Leo Armstrong, AFSCME Local 1360, August 19, 1999. See also “Akron Workers Pave the Way,” AFSCME OC8 News July/August 1998. p. 15.

City of Ardmore, Oklahoma

Keywords: water, failed contract

Wastewater treatment plant

Ten or fifteen years ago the wastewater treatment plant in Ardmore, Oklahoma was privately run. The service was brought back in-house after about two years because the private facility repeatedly failed to meet federal and state effluent limits. Since that time, service quality has improved significantly. Because the service was brought back in house long before Mr. Hines worked for the city, he did not know any other details about the service.

Case based on interview with Blaine Hines, City Manager, June 21, 1999.

City of Campbell, California

Keywords: Grounds Maintenance, Failed Contract

Buildings and Grounds Maintenance

During a major recession in California about six years ago, the City of Campbell decided to contract out its

buildings and grounds maintenance services to a local contractor. At the time the city was under pressure to cut costs, and the private contractor offered to provide the service at a rate significantly lower than what the city was paying its own employees to do the job. In addition, the department had a number of job vacancies, which made it easy to transfer the remaining one or two employees to other city departments following privatization.

The contract was brought back in house after two years with the private contractor. Poor quality service was the primary reason for the transition. The city received numerous complaints from area residents about the quality of maintenance at city parks, and city supervisors were growing tired of constantly having to monitor the contractor's work.

The city's decision to take over the service was also facilitated by the healthy economy in Silicon Valley. A growing tax base enabled the city to be less concerned with cutting costs and focus its attention on improving service quality. The city briefly considered hiring another private contractor, but an internal review by the Public Works department showed that public employees could provide better quality service for about the same cost.

Buildings and grounds maintenance has remained a publicly provided service in Campbell since 1996. The city had no problems bringing the service back in house, in part because the city makes a conscious decision to never sign long-term contracts with private providers. In this case, the contract was written so that the city could terminate the contract at any time.

Service quality has improved tremendously now that public employees are back on the job. According to City Manager Bernie Strojny, city workers provide better service because they possess a sense of ownership that the private contractor does not. "City employees invest more," he says, "because they genuinely care about the places they work at." In contrast, city properties are just one of many locations that the private contractor serves, something that Strojny believes contributes to the contractor having less of an interest in service quality. The city program currently employs three or four people.

Case based on interview with Bernie Strojny, June 18, 1999.

City of Charlotte, North Carolina

Keywords: Transit, Competitive Bidding, Failed Contract

Paratransit Service

The City of Charlotte, North Carolina operates a transit service for the elderly and disabled that employs about fifty workers. Around 1993-1994, the city decided to privatize night and weekend service as a way to cut costs. The number of passengers served during these periods was low, yet the city still required a dispatcher, supervisor, and drivers to be on staff at all times. To avoid these expenses, the city contracted out with several local taxi companies to provide the service. Taxis were paid between \$18 and \$20 for each trip. Since these companies needed to have supervisors and dispatchers on duty full-

time anyway, it was thought, the city should save money by having the service privately provided. In addition, at the time the city was having problems getting enough drivers to work these less-desirable shifts. For these reasons and others, the city did not submit its own bid to provide the service in 1993-1994, an otherwise common practice in Charlotte.

The service was brought back in house in 1995 following several complaints from paratransit riders. The taxi drivers were not accustomed to working with disabled clients, and viewed them as less desirable passengers compared to their other customers. In contrast, city drivers worked with disabled clients every day, and often knew their regular passengers by name.

As part of the city's efforts to increase efficiency, the entire service (days, nights, and weekends) was put out to bid in 1996. Public employees won the contract because their bid was significantly lower than their two competitors, Davey Transportation and Laidlaw. The city won the contract with a bid of \$12.60 per trip, compared to the competitors' bids of \$16.95 and \$20.49 respectively. The successful city bid was assembled by Charlotte DOT staff with the assistance of KFH, a private consulting firm. The taxi companies that had provided the service previously did not bid on the contract, in part because they did not have the number of vehicles necessary to run the service full-time. The new three-year contract went into effect in July 1997.

This year the city expects to provide the service for \$160,000 below the bid price. Most of these savings have come from reductions in overtime pay, which has declined significantly since the city instituted automated shift

scheduling. Half of this money will be divided equally among the employees, which amounts to an annual bonus of \$1,600 per full-time employee, paid quarterly. Part-time employees also receive the bonus, based on the number of hours worked. On average, the gain-sharing program amounts to about 7 percent of an employee's total pay, which averages between \$25,000 and \$30,000 per year.

Case based on interviews with Mr. Lynn Purnell, July 2, 1999 and August 6, 1999.

City of Cincinnati, Ohio

Keywords: Residential Trash Collection, Competitive Bidding

Yard Waste

In 1996 the City of Cincinnati, Ohio expanded its recycling program to include curbside pick up of yard waste. The program began after a local firm, Rumpke, approached a city council member with the idea, and offered to perform the service for \$1.5 million annually. Upon hearing the news, a second city council member approached the union and said the city would be willing to offer AFSCME the contract if it could beat Rumpke's price.

A labor-management committee soon formed to research the program. The committee determined that city employees could perform the same service for less than \$1 million--fully one third less than what the private contractor was asking. The labor-management committee continues to meet annually to review the past year's performance and set the contract terms for the upcoming year.

The successful program is now in its third year of operation. About twenty-five full-time and seasonal jobs have been created as a result of the program.

Case based on interview with Renita Jones Street, AFSCME Rep from the Cincinnati Regional Office, July 1, 1999.

City of Columbus, Ohio Public Schools

Keywords: Grounds Maintenance, Failed Contract

Grounds Maintenance

For as long as anyone can remember, public schools in Columbus, Ohio, had used a private contractor to maintain the district's fifteen athletic facilities and eight large open fields. Public school employees had never bid on the contract because they lacked the special equipment necessary to do the job.

Around 1993 employees in the school landscaping and vehicle maintenance departments devised their own plan to bring the work in-house. The plan involved purchasing a new fifteen-foot wide bat-wing mower and repairing an aerator and a seeder that had been in storage for over fifteen years.

Following two years of lobbying school administrators, the school district accepted the employees' proposal and canceled their existing agreement with a private contractor. Public employees took over the service beginning with the 1995-6 school year.

Savings from the public program totaled \$105,000 during the first year of the contract (more recent data is not available). The public crew has also

expanded its services beyond what the private contractor provided. For example, now all fields are aerated twice yearly, a service that would cost over \$27,000 if a private contractor were hired to do the job.

Service quality also has improved since bringing the service back in-house. For example, the private contractor paid little attention to accommodating game schedules or to the quality of service beyond mowing. In contrast, public workers have even gone so far as to take soil samples to Ohio State University for analysis, so that the appropriate fertilizers can be applied in the spring. "They've done a great job," according to Greg Van Horn, Athletic Director at Walnut Ridge High School, "which makes us want to do a great job. They've made us all really happy."

"The value of the commitment demonstrated by OAPSE members, who took the initiative to improve services for our kids and to save money for the Columbus Public Schools, cannot be overestimated," said School board President Mark Hatch. "We appreciate and can always count on this kind of loyalty and devotion from our OAPSE members."

Case based on OAPSE News, volume 56, number 3 December 1996/January 1997. pp. 1-2.

Fort Collins, Colorado

Keywords: Transit, Failed Contract

Paratransit Service

In an effort to cut costs, the City of Fort Collins, Colorado privatized its paratransit service for senior citizens and

persons with disabilities in 1996. For two years Shamrock Taxi ran the program, but several complaints of poor service quality resulted in the city bringing the program back in-house. While under private contract, the service had numerous problems hiring and retaining employees, resulting in unreliable service. In addition, users of the program often complained about the lack of courtesy on the part of van drivers.

The owners of Shamrock Taxi were upset when the city decided to take back the service in 1998. They tried to generate community support for their cause, arguing that the city's claims of poor service were unfounded. The taxi company failed to sway public opinion, however, which was firmly on the side of city government.

The service currently employs about 25 part-time employees. Costs for the program are similar to what the taxi company charged, but service quality has improved significantly.

Case based on interview with John Fischbach, City Manager, June 24, 1999.

City of Fort Lauderdale, Florida

Keywords: Public Works, Competitive Bidding

Infrastructure Pipe Crews

For several years the City of Fort Lauderdale, Florida, relied on private contractors to provide two thirds of the city's water pipe infrastructure, with the remaining third of the work being done by city crews. In January 1997, the city announced plans to put the final third of the service out to competitive bid.

A Request for Proposals was issued for the service and several private firms expressed interest in the contract. The city's own crews were interested in the work as well, and a labor-management "partnership" committee quickly formed to prepare a bid.

Fort Lauderdale's "partnership" programs are a product of CALM, the Cooperative Association of Labor and Management, an innovative program that employs the concepts of Total Quality Management to promote cooperation and understanding between labor and management and boost productivity for the city. The successful program has been in place since 1994 and includes sixteen sub-committees and over 200 employees.

The city's Public Services Water Pipe Committee prepared its proposal in less than three months. The committee was co-chaired by the union president and the director of labor relations for the city, who co-chair all partnership committees. Having these two established veterans on every committee "helps to create a safe environment for our people," says Local President Cathy Dunn. "This way we can establish trust among all parties early on, and get to the real work of developing our proposal." In addition to the co-chairs, the committee consisted of a supervisor, division manager, and four crew members. Each committee member is encouraged to participate fully in the development of the proposal, and any member of the team has the right to veto elements of the plan that they have problems with. "All it takes is one 'no' vote and the project stops," says Dunn.

Once the committee completed its proposal, it was then sent to an internal auditor to ensure that the committee's budget estimates were

correct. Having this extra check in place added credibility to the employees' proposal in the eyes of City Council and guaranteed that all project expenses were included in the bid.

Private sector bids for the job varied from \$110 to \$127 per linear foot. In contrast, the city crews won the contract with a bid of just \$70 per foot. Public employees were able to provide the service at such a low cost by restructuring how the work was done. Work schedules were changed from five eight-hour days to four ten-hour days to reduce set up and travel time. Equally important, pipe crews doubled in size from six to twelve workers, following the example of successful private firms that do the same work.

Productivity has increased dramatically since the work was brought back in-house. In the first year alone, city crews managed to lay over three and a half miles of pipe. In comparison, private crews delivered an average of only one mile of pipe per year.

City officials were so impressed by the public employees' work that the pipe contract was recently doubled to include two thirds of city pipe jobs. Since bringing the work back in, employment in the department has increased from one crew of six workers to two crews that employ over thirty people.

Case based on interview with Cathy Dunn, AFSCME Local 532, August 3, 1999. See also "Florida City Workers Find New Ways of Improving Services," AFSCME Public Employee. Sept/Oct 1995. pp. 20-21; and "AFSCME Local 532 and the City of Fort Lauderdale, Florida Cooperative Association of Labor and Management (CALM)". AFSCME Partners for Change Series. <<http://www.afscme.org/wrkplace/p-ftlaud.htm>> 2 pp. 1998.

Independence Mental Health Institute, Independence, Iowa

Keywords: Laundry Service, Failed Contract

Laundry Services

Laundry services at the Independence Mental Health Institute in Independence, Iowa, were brought back in-house earlier this year following three to four years with City Laundry of Oline, Iowa, a large regional laundry service.

Managers at the facility thought that the private contract could save the state money, since continuing to provide the service in-house would have required the institute to replace its aging washers and dryers. The substantial savings promised by the private contractor were never realized, however.

The Mental Health Institute paid for the laundry service based on the weight of each load. Yet the private contractor charged the facility based on the weight of the load when the laundry was wet, not dry, as the Institute had expected. In addition, slow turn-around times resulted in the facility having to purchase an additional set of linens in order to have sufficient stock on hand to cover the laundry rotation.

The facility had to purchase new equipment in order to bring the service back in-house. Managers were reluctant to buy new machines because of the high cost of industrial washers and dryers, but knew that the one-time expense would be worth it over the long run.

Since bringing the service back in, service quality has improved tremendously. The facility has hired three new employees to run the service.

Case based on interviews with Larry Bathan, Independence, IA Local President,

June 28, 1999, and Tom Anthony, Council 61 in Des Moines, IA, June 29, 1999.

Independence Mental Health Institute, Independence, Iowa

Keywords: Grounds Maintenance, Competitive Bidding, Failed Contract

Grass Mowing

The Independence Mental Health Institute, a state-run hospital for the mentally ill in Independence, Iowa, has had as many as forty-one services contracted out at any given time. Grass mowing services were no exception, and a mid-sized, regional contractor was responsible for the service between 1990 and 1998.

When the contract for the mowing service went out to bid in the spring of 1998, AFSCME state workers put in their own bid against approximately twelve other service providers. AFSCME won the competition with a bid of \$65,000, compared to the lowest private bid of \$80,000.

Cost savings of nearly twenty percent were only one of many reasons why AFSCME workers were awarded the contract. The AFSCME proposal was attractive to state officials because bringing the service back in-house meant that the hospital had better control over how services were delivered. Cutting times could be coordinated with the needs of the facility, whereas the hospital had no control over when the private crews would come to mow the facility's extensive lawns and recreation areas. For example, it was difficult for hospital staff to schedule outdoor activities for the residents because the

ball fields and play areas were mowed at different times every week. The irregular schedule of the cutting crews meant that planned activities often had to be postponed or canceled.

Poor service from the private contractor was another reason why the service was brought back in-house. Operated largely by teenagers, the contractor's machines had taken down trees, burned the grass, and bumped into buildings on several occasions.

This poor quality service was the main reason why the private contractor did not challenge AFSCME's successful bid. If anything, the firm worried that the state would impose performance penalties for property damage they caused at the facility.

In order to win the contract, state employees had to re-engineer the way the mowing service was provided at the facility. Whereas before the facility employed three full-time employees year-round, the service is now provided by one full-time employee and three seasonal staff. "More employees would certainly allow us to improve service quality," says Council 61 Representative Tom Anthony, "but even with our limited staff the service has improved significantly since being brought back in-house."

Case based on interviews with Larry Bathen, Independence, IA Local President, June 28, 1999, and Tom Anthony, Council 61 in Des Moines, IA, June 29, 1999.

City of Irvine, California

Keywords: Food Service, Competitive Bidding, Failed Contract

Care Management

The City of Irvine operates two seniors' centers that provide a wide variety of services to the local elderly population. Among their many programs, the centers offer care management services for individuals in need of assistance with health care, transportation, housing, and other social services. At any given time there are about 100 active cases in the system.

The lead staff person for this service was charged with administering a community-based care management program. In addition to direct service, this person also coordinated a variety of volunteer programs and maintained linkages with local, state, and federal agencies. Unfortunately, many of the technical aspects of managing a geriatric social work program had been overlooked by the city when it first budgeted for the position several years earlier. As a result, the city often had problems retaining the lead staff person for this service. In evaluating its options for stabilizing the program, rather than upgrade the lead staff position, the city chose to privatize the entire program in 1994.

The Request for Proposals attracted few qualified bidders. In spite of a competitive bidding process, the city felt that only one contractor had the qualifications necessary to run the complex program. After reviewing the technical responsibilities contained in the service contract, however, the lone qualified bidder chose to withdraw from the competition. The perception was

that many of the contract services were hard to measure, difficult to administer, and that performance would be based largely on community perceptions rather than tangible results. This created a sense that the cost to administer the program would grow far beyond the ability of the vendor to manage the program within the available budget.

Unable to attract qualified contractors, in 1995 city administrators went back to City Council and asked that the lead staff position for the program be upgraded. This time they were successful in their request, and the program has remained in public hands ever since.

Case based on interviews with George Searcy, Superintendent of Senior Services, City of Irvine, California, June 24, 1999 and August 3, 1999.

City of Irvine, California

Keywords: Social Services, Competitive Bidding, Failed Contract

Senior Citizens' Meal Program

Across the country, federal law dictates that local Agencies on Aging provide a meal program for senior citizens. For the City of Irvine, responsibility for this task lies with Orange County, a large urban county that includes more than thirty different municipal governments.

Rather than allow each municipality design its own meal program, the county used to be divided into three service districts, with a single meal service provider for each district. In Irvine's case, the service district included eighteen different municipalities. Each district contract

was administered by a non-profit agency, who then hired a private food service company to prepare and deliver the meals to city-run seniors' centers.

The complexity of the service arrangement resulted in the city having no control over the program, even though it was the final "consumer" of the service. Because it was the county that paid for the service (with federal dollars), all decisions regarding service delivery and program design were made at the county level. Yet the two levels of government had different ideas of what constituted quality service. For county officials, service quality was measured in program efficiency; distributing the largest number of meals at the lowest cost was their primary goal. In contrast, the city's primary concern was to deliver high quality meals, since its employees had to interact with the senior citizens that used the service on a daily basis.

The meal program was brought back in house in June 1998 after 10 years with the private contractor. "It took the city five years to recognize the problem," says the Superintendent of Senior Services, "and another five to fix it." Poor service quality was the principal reason for bringing the service back in house. Lunch-time meals were prepared at a location eighteen miles away, and put on delivery trucks at 4:00 am. By the time the food was served at noon, few seniors were interested in eating it.

Slow delivery times were one reason for poor quality food, but cost considerations were another. The federal dollars used to pay for the program were insufficient to pay for the service as it was being administered by the county. Not only did the county have to pay its own administrative and overhead costs, it also had to pay the

regional non-profit agency responsible for administering the program, who then had to pay the private contractor, who needed to make a profit off each meal.

Irvine was able to bring the service back in by bidding on its own contract when the most recent Request for Proposals (RFP) was issued. Its bid was similar to those put in by private contractors, but the city promised higher quality service. Simply getting the opportunity to bid involved months of lobbying the Orange County Board of Supervisors, who were wary of allowing a government agency to bid on a competitive contract. Opposition to the plan centered on the city's lack of experience in the food service industry. After considerable debate, however, city officials, with the backing of two local seniors' groups, were able to convince the county that they had the qualifications necessary to run the program.

Facilities for the new service already existed in one of the city's two senior centers. Built just five years ago, the developers of the center had the foresight to include kitchen facilities in the new building, in anticipation for a growing elderly population in the area. Administration of the program was folded into the routine activities of center management. Between four and six new food service jobs were added to the center's payroll.

Since returning to public hands, satisfaction with the service has increased dramatically. In the year since the city took over the meal plan, use of the service has increased by over 100 percent.

Case based on interviews with George Searcy, Superintendent of Senior Services, City of Irvine, California, June 24, 1999 and August 3, 1999.

City of Lakewood, Colorado

Keywords: Public Works, Failed Contract

Winter Street Sweeping

Prior to 1997, the City of Lakewood, Colorado used private sweeping contractors to supplement city sweeping forces in the winter months. The additional sweeping effort in the winter was needed to remove sanding material from the roadways in a more expeditious manner, in order to address PM-10 air quality concerns and overall city aesthetics.

In 1997 the decision was made to eliminate the contracted winter sweeping services and use the funds budgeted to lease three additional sweepers and hire four seasonal employees to supplement city employees in the winter months. This decision was made due to quality and reliability problems with private sweeping contractors.

Service quality has improved considerably since bringing the service back in-house. The quality and reliability problems have been solved, and there has also been an increase in sweeping quantity of approximately 25 percent.

Case based on interviews with Jim Zelinski, Deputy City Manager, and Chris Jacobsen, Maintenance Operations Manager, July 1, 1999.

City of Lubbock, Texas

Keywords: Residential Trash Collection, Competitive Bidding, Failed Contract

Residential Trash Collection

In May 1995 the City of Lubbock, Texas began its first experiment with private service delivery when it hired Browning-Ferris Industries (BFI) to provide one third of its residential trash collection services. BFI won the three-year contract with the city following a competitive bidding process that included two other private firms.

The BFI contract was the city's first experiment with private service delivery, and as such the city approached privatization cautiously. Rather than contract out the entire service, city officials instead chose to put just one third of city routes out to bid. Keeping a majority of the service in-house gave the city the option to return trash collection to public hands if the private contractor failed to deliver high quality service.

Cost savings with the private contractor averaged about \$150,000 annually, according to City Manager Bob Cass. However, service quality was lower with the private contractor. The city maintains detailed records on the number of complaints received for both publicly- and privately provided services, and the number of complaints per 100 households was significantly higher with the private firm.

About two years into the contract BFI attempted to renegotiate its agreement with the city, citing unexpected costs. The original contract was negotiated such that BFI would be paid on a per-household basis. Yet the weight of trash collected per household was higher than the company expected,

which meant that the company had to pay more than it had anticipated to dispose of the trash at the local landfill. The city refused to renegotiate its contract, however, and the contractor finished out its three-year term at the agreed-upon price.

BFI's contract ended in May 1998, and the service was again put out to competitive bid early that year. This time the service contract was for a period of five years rather than three, and the contract was for the right to serve forty percent of the city's households instead of thirty-three percent. In addition, the contract was rewritten so that the service provider would be charged based on the number of cubic yards "tipped" rather than the number of households served. By charging for service according to the number of cubic yards tipped the city hoped to avoid the unanticipated costs faced by the private provider during the previous contract.

The Spring 1998 Request for Proposals attracted bids from three private providers as well as the city. Public employees won the contract with a bid of \$3.6 million over five years, compared to private bids of \$7.3 million (BFI), \$6.6 million (El Paso Disposal), and \$6 million from Duncan Disposal.

The city's bid of \$3.6 million represented savings of forty percent compared to the lowest private bidder. The city was able to lower its costs by restructuring the way the service was provided. Rather than pick up trash twice weekly year-round, the city changed its service to once a week during the winter (November to February) and twice weekly during warmer periods (March to October). Equally important, the work week for city employees was extended from forty

to fifty-three hours per week. While overtime pay was significantly higher under the new system, total costs were still lower than if the city were to hire additional full-time employees to deliver the service.

The city's bid was carefully assembled by an interdepartmental team. Members of the team included staff persons from the city's fleet department, budget office, and public works, as well as solid waste employees. In addition, the city's internal auditor and an independent certified public accountant reviewed all bids received, including the city's cost estimates. The auditor and accountant's thorough evaluation of all cost items ensured that the total costs of providing the service were included in each proposal, and added credibility to the city's plan in the eyes of City Council.

The city had no problems taking back the service. Because city officials knew that they might take back trash collection services at any time, the city kept its seven best trucks that were scheduled for retirement in storage during the three years of private service provision. Consequently the city did not need to purchase any expensive new equipment when it took over trash collection in 1998.

Between seven and nine new drivers were hired to provide the service. The city's fully automated system uses large (3 cubic yard) containers to collect residential trash. As a result laborers in addition to the driver are not required to provide the service. These dumpsters are located in alleys and are shared by three to four families, on average.

The city's five-year contract for trash collection will be put out to competitive bid again in 2003. Like the two previous rounds of competitive

bidding, only one third of city routes will be considered for privatization. According to the Director of Public Works, Mildred Cox, the city would never consider wholesale privatization of the service. "We would always keep at least one third of the service in house," says Cox. "This way we would never lose the ability to keep the private firms on their toes. Just as important, having competitive bids provides the city with important information about what constitutes efficient service."

Case based on interviews with Bob Cass, City Manager, and Mildred Cox, Director of Public Works, July 26, 1999 and August 3, 1999.

Iowa Veterans Home, Marshalltown, Iowa

Keywords: Food Service, Failed Contract

Food Service

In an effort to cut costs, food service and housekeeping services at the Iowa Veteran's Home in Marshalltown, Iowa were contracted out in March 1993. For five years these services were provided by J.A. Jones, but the company lost its contract when the services were put out to competitive bids in March 1998. Morrison Health Care won the food service contract, while ABM was granted the housekeeping contract at the Home.

It was not long before residents and family members complained about the new food service. Morrison Health Care was not used to serving such a large number of senior citizens on a daily basis, and this lack of experience was reflected in the low quality meals that residents were served.

After only a few weeks with the new food service contractor, news of the poor service reached State Representative Teresa Garman (R) of Ames, Iowa, who took it upon herself to terminate the Morrison contract. Researchers at her office determined that state employees were best equipped to handle the job, and that public staff could run the program for \$90,000 less than what the contractor was currently charging.

The state had no problems getting out of the five-year food service contract, and was only required to give Morrison Food Service 90 days notice. For its part, Morrison argued that it could have done a better job, but was overburdened by government regulations which limited its ability to provide quality service.

The new public contract is scheduled to go into effect on October 1, 1999. AFSCME expects that between 76 and 88 new public positions will be created as a result of the transition. The Home plans to hire most of Morrison's current workforce, which should facilitate the transition. As state employees, food service workers are expected to make a dollar more per hour, on average.

State Representative Garman's next project is to return housekeeping services to state control as well. ABM employees who currently provide the service are working under highly stressful conditions, says AFSCME rep Pete Peterson, and the firm is having problems keeping qualified staff. Mr. Peterson expects negotiations for housekeeping staff to begin sometime later this year.

Case based on interview with Pete Peterson, AFSCME Representative, June 30, 1999.

City of Moore, Oklahoma

Keywords: Public Works, Failed Contract

Public Works

In response to fiscal stress, the City of Moore, Oklahoma decided to contract out its public utilities and public works departments in December 1993. Services in the contract included streets, drains, parks, cemeteries, building maintenance, sanitation, fleet maintenance, and animal control. Following a competitive bidding process that included three different companies, the five-year contract was awarded to Professional Services Group (PSG), a large multinational firm.

When PSG took over public works, nine employees chose not to take jobs with the private firm. Four months later PSG terminated eleven additional employees, bringing the total reduction in staff for the department to twenty. Following the layoffs PSG employed about forty-five workers. In spite of the staff reductions, PSG still managed to meet its contract obligations to the city. "For the first three years, everything was working well," said Richard Sandefur, Director of Public Works. "PSG had demonstrated that it could do more with less manpower than the city."

After about three years with the private contractor the local economy improved considerably, and citizens were demanding a higher level of service that what PSG was required to provide under the terms of the contract. Moore City Council felt that PSG should provide this higher level of service at no extra cost to the city, and that the company should hire back some of the

employees they terminated to provide the additional service.

PSG rejected the city's request, arguing that since they were fulfilling the terms of the contract they were under no obligation to hire additional staff without an operating budget increase from the city. For the extra money that PSG was going to charge to expand services, the city decided that it made more sense to cancel the contract and bring the work back in-house.

In addition to cost considerations, the city chose to take over public works functions to improve service quality. "The city has a better idea of what the city wants," said Mr. Sandefur, "and therefore it made sense to bring the contract back in-house." Making public works a city department again has allowed the city to adjust its level of service on a case by case basis. In contrast, the PSG contract did not have the flexibility required to meet changes in citizen demand for services.

In September 1997 a new service agreement was signed by the city and PSG. Under the new contract, most public works functions would return to the city, effective immediately. PSG would retain the operation of the waste water treatment plant, water and sewer line maintenance, and the reading of water meters for an additional five-year term.

After taking over public works, the city increased the number of employees in the department by ten, bringing the total to thirty-nine. PSG currently employs sixteen workers to provide water service. Combined, the two parties employ fifty-five people. This figure is about ten less than what the city employed prior to privatization, but ten more than what PSG used when it ran both programs.

The new service arrangement between PSG and the city has been in effect for about two years, and both sides have been pleased with the results. "Management and employees are working together to give the citizens the increased level of service they deserve," Sandefur said.

Case based on interviews with Michael Drea, City Manager, and Richard Sandefur, Director of Public Works, August 16, 1999 and August 17, 1999.

Village of Northbrook, Illinois

Keywords: Meter Reading, Failed Contract

Water Meter Reading

About six years ago, the Northern Illinois Gas Company approached the Village of Northbrook, Illinois, with a proposal to take over the village's water meter reading service. Attracted by the company's promise of significant cost savings, the village accepted the gas company's offer.

The village quickly discovered that any cost savings from the program were offset by poor quality service. Problems with the service centered on the transfer of billing information between the two organizations. While the gas company was responsible for reading the meters, it was the village that sent out bills and collected fees from its customers. However, the billing information supplied by the gas company on magnetic tape had high error rates, which meant that the village often had to double-check the information sent by the company. This situation was further complicated by the fact that the two organizations used

different billing software programs. Contrary to the agreement, information sent by the gas company could not be easily transferred to the village's computer system, which resulted in significant delays in billing customers and valuable time wasted by village employees.

About a year into the contract the village informed Northern Illinois Gas that it would cancel its contract if the billing problems were not corrected within 90 days. The company failed to improve its quality of service during this time, resulting in the service being brought back in-house. Four new part-time positions with the village were restored as a result of the transition.

Case based on interview with John Novinson, Village Manager, July 8, 1999.

Pinellas County, Florida

Keywords: grounds maintenance, failed contract

Buildings and Grounds Maintenance

Private contractors maintain over 80 percent of all buildings and grounds in Pinellas County. The one exception to this rule is grass cutting at the county's 360 water pumping stations, a service that was brought back in-house following 18 months of privately provided service.

The pumping stations are on small lots (50' by 50') surrounded by chain-link fences. Most stations are located at remote spots in residential neighborhoods, and are rarely visited by county employees. In 1996 county officials contracted out grass cutting at these facilities in order to cut costs. While the private contractor was willing

to provide the service at significantly lower rates than what it would cost for the county to do the job, the contractor quickly found that he and his crews were unable to maintain such a large number of small lots in a timely fashion.

Following a number of complaints from residents living near the pumping stations, the county chose to end its contract with the private contractor half-way through its three-year contract. The contractor admitted he was in over his head, and was relieved to see the contract terminated. County employees have provided the service for over two years now, and service quality has improved tremendously.

The decision to bring the work back in house was a joint effort of the County Administrator and other managerial staff. No additional employees were required to provide the service. Rather, the work was incorporated into the daily routine of county maintenance workers.

Bringing services back in is rare in Pinellas County, where a large number of services are contracted out. "Grass cutting at the pumping stations was a unique case," says County Administrator Fred Marquis. "Servicing so many remote locations made it very difficult to monitor service quality, so for this particular service it made more sense for the county to do the job." The county has contracted out a number of services to private providers over the past decade, and generally has been pleased with the services of its contractors. However, satisfaction with services is only one reason why the county rarely takes services back in-house; equally important are the rules governing the competitive bidding process. When a service is first put out

to bid, county employees are allowed to compete with private firms for the contract. Once that contract is "lost" to a private contractor, however, only private providers have the opportunity to bid on future contracts. The county sees the costs associated with bringing a service back in as too costly to be worth the effort. Not only would the county have to hire new employees to take over the service, but new equipment and buildings may be required as well. In short, the start up costs associated with bringing a service back in house make public bids on competitive contracts prohibitively expensive for the county.

Case based on interview with Fred Marquis, County Administrator, July 6, 1999.

City of Rialto, California

Keywords: Meter Reading, Failed Contract

Meter Reading

Three years ago, the City of Rialto contracted out its water meter reading to a private contractor. The three employees that had performed the work previously had all recently retired, which meant that the transition would have no effect on city employees. The program cost about the same as with city workers, but the city saw contracting out as a way to lower the number of workers it had to supervise directly.

Following several complaints from consumers, the city chose to bring the service back in house about a year ago. The employees hired by the private contractor were not reading the meters directly, but rather estimating households' water usage. These estimates were often way out of line

with actual usage, which angered many consumers.

Service quality has improved since returning the service to public employees. Costs are about the same compared to the private contractor.

Case based on interview with Joe Guzzetta, City Administrator, June 28, 1999.

City of Rialto, California

Keywords: Grounds Maintenance

Park Maintenance

Park maintenance services (mainly grass mowing) for two larger parks in Rialto were brought back in-house three years ago after being contracted out for “several years.” The purchase of a gang mower by the city made it financially feasible to take over the private contract. No new jobs were created as a result of the change in service delivery.

Case based on interview with Joe Guzzetta, City Administrator, June 28, 1999.

City of Sanford, Florida

Keywords: Ambulance Service, Failed Contract

Ambulance Service

Like many places around the country, emergency medical service in Seminole County, Florida used to be provided by two teams of emergency technicians. The first team, usually employed by the municipal fire department, was responsible for the initial emergency response. Their job

was to provide paramedic services to those in need as quickly as possible. The second team, a privately provided ambulance service, was responsible for transporting patients to area hospitals after the first team had stabilized the patient.

The rationale behind the two team approach was that patients could be served more efficiently since paramedics could spend more of their time on emergency calls and less time transporting patients. Rather than improve quality of care, however, having two teams provide the service resulted in duplication of services and slower response times. Often the ambulance service was slow to arrive on the scene, which meant that valuable time was wasted for both the paramedics and the patient. When the ambulance crews did arrive, they were then required to perform the same treatments and ask the patients the same questions that the paramedic team had done only minutes before.

About three years ago, the City of Sanford, along with a majority of municipalities in Seminole County, chose to eliminate the second team altogether and have only one team responsible for both initial treatment and transportation of the patient. This way one team would be responsible for the care of the patient from the time of arrival at the scene of the call to the time the patient entered the hospital emergency room.

In order to keep response times low, the city had to hire eight additional paramedics and purchase some new equipment. These additional expenses are paid for by revenues generated from ambulance service fees. The new system costs about the same as the previous two-team system (if not slightly

more), but quality of care for patients has improved significantly.

The city did not have a long-term contract with the private ambulance provider, which meant that there were no major barriers to bringing the service in-house. It is also worth noting that the ambulance service was never publicly provided until the program was redesigned three years ago.

Case based on interview with Anthony Vanderworp, Chief Administrative Officer, July 7, 1999.

City of Sanford, Florida

Keywords: Meter Reading, Failed Contract

Utility Meter Reading

“Around 5 years ago” the City of Sanford contracted out its water meter reading service to FDL. The service was taken back in-house after one year with the private contractor. After performing the service for one year, FDL determined that they could not provide the service at the price they had said they could. The company went to the city and asked for more money, but the city decided that the amount they were asking would cost more than if the city provided the service with public employees. Mr. Vanderworp could not recall the finer details of the transition, since the change occurred prior to his arrival in Sanford. He did note, however, that the change affected just one or two employees.

Case based on interview with Anthony Vanderworp, Chief Administrative Officer, July 7, 1999.

City of Savannah, Georgia

Keywords: Fire Services, Failed Contract

Fire Services

On the south side of Savannah, Georgia, fire protection services had historically been provided by South Side Fire Protection, Inc., a non-profit fire department with a mix of full-time professional staff and local volunteers. The city of Savannah annexed the South Side in the late 1970s, but South Side Fire continued to provide fire service to this part of the city. The rest of the Savannah metropolitan area was served by the city’s own professional fire crews. By the late 1990s South Side Fire was responsible for about a third of the city’s fire service.

As the South Side continued to grow, concerns were raised about the differences in service quality between the City of Savannah Fire Department and South Side Fire. Whereas previously the area consisted of mainly single family housing, over the years the South Side grew to include two major shopping malls, a number of multi-story office buildings, several car dealerships, and a variety of other commercial developments. Responding effectively to these types of calls required a different method of firefighting than what South Side Fire could offer. In addition, the number of city firefighters responding to each call was always the same, whereas the number of South Side volunteers responding to calls varied at each event.

Following two and a half years of planning and debate, the city terminated its contract with the private company in early 1998. The decision to take over the

service was made by city staff and elected officials. One of the most vocal proponents of the change was the city council representative from the South Side, who argued that the quality of service from the private company was inferior to that offered by the city.

South Side Fire Protection fought hard to protect their business. However, the owners of the company lacked credibility in the eyes of most city council members, and failed to reverse the city's decision to take over the service. The city was increasingly concerned with service quality and response times on the South Side. More importantly, the cost of service had risen during the life of the contract. The city found itself paying the company for equipment and stations "over and over again," and the company would increase its charges to the city on a yearly basis.

The extent to which South Side Fire was overpriced relative to the city was made clear during the final round of negotiations with City Council. In a last-ditch effort to save its business, the company offered to provide the service at a significantly lower price than what it was currently charging. This sudden drop in price only angered city officials, who wondered how much, and for how long, this supposed "non-profit" organization was overcharging them.

The decision to take over fire protection in the South Side was facilitated by the fire fighters' union. Several years ago the union "realized it needed to get competitive," and worked with city administrators to reorganize the department and make it more efficient. This strong relationship with the union made it easy for city officials to support the takeover.

Between forty and fifty new union jobs have been created with the

expansion of the city department. Around twenty-five of the new hires came directly from South Side Fire Protection. City wages and benefits were only slightly higher than their non-union counterparts at South Side.

Since the City took over fire services fifteen months ago, service quality has improved dramatically. During its first year of operation the city estimates that the new arrangement has saved taxpayers over \$200,000, and expects savings to increase as the program matures.

Case based on interview with Michael Brown, City Manager, June 25, 1999.

Sioux City, Iowa

Keywords: Residential Trash, Competitive Bidding

Residential Trash Collection

In Sioux City, Iowa, residential trash collection had been privately provided for over 20 years. At one time there were as many as seven small trash holders providing the service to different parts of the city, but for the past several years trash had been collected by a single company called Solid Waste, Inc., owned by the video rental giant Blockbuster.

When the service was put out to bid in the fall of 1996, the director of the Sioux City Utilities Department approached union leaders with a proposal to put together a bid for the project. Their hard work resulted in public employees winning the contract with the lowest of three bids for the service.

The cost difference between the city's bid and its competitors' was

minimal, says AFSCME member Garland Treloar. What made the difference, he said, was the joint proposal by Treloar and the Director of Public Utilities in front of City Council. "We have two choices." Treloar told the Council. "We can make these workers part of the community. We can offer them a decent wage to support their families. And we can be sure that the money the city spends stays here in Sioux City. Or, we can continue with business as usual and send half of what we spend on trash collection off to some corporate headquarters in New Jersey."

The city had no problems taking over the service. Private contractors who had collected trash in the past had always used city-owned trucks and maintenance facilities, so there was no need to purchase new equipment to do the job. In fact, the trash trucks and uniforms worn by the private contractor had always been branded with the Sioux City logo, even though the service was provided by a private firm.

Approximately 10-12 drivers and 10-15 "hoppers" (trash collectors) were hired to provide the new service. Service quality has improved tremendously, and accident rates with the city are way down compared to the private contractor.

The service will go out to bid again in February 2000.

Case based on interview with Garland Treloar, AFSCME Local President, August 18, 1999.

The City of Warwick, Rhode Island

Keywords: Residential Trash Collection, Competitive Bidding

Residential Trash Collection

In the spring of 1992 the Mayor of Warwick, Rhode Island, decided to privatize sanitation and recycling services. In spite of strong union opposition, the plan was approved by City Council and a Request for Proposals (RFP) for trash collection and recycling was issued. The winning bid came from Truk-Away of Rhode Island (later known as United Waste Services) who was awarded a five-year contract for the service.

Truk-Away's contract ended in early 1997, and the city again solicited bids for the trash service. The RFP attracted bids from five private firms and a sixth bid from the city's public works department. The city won the five-year contract with a bid price \$1.1 million lower than its closest private competitor.

The winning proposal was a joint effort of the mayor and city council, the finance director, the city solicitor, the public works department, and AFSCME Local 1651. Under the new plan, all trash collectors work together as a team, with drivers collecting trash in addition to driving the trucks. When a truck is full, only one person drives it to the landfill; the other worker is taken to a different route to help the two workers on that truck collect trash faster.

Twenty-two new full-time employees were hired to provide the service. The city also acquired 14 new trucks, since its old equipment was sold to Truk-Away when the service was privatized in 1992.

The city's contract with public employees is similar to the previous private contract in that the city can terminate the agreement at any time. "If it doesn't work we have a fall-back position, and that's important to the taxpayers," said Councilman Al Ferruolo. In addition, the service will again be put out to competitive bid again in 2002. "Our own workers, they're going to be accountable," said Council Member Richard DeGregorio, "because they don't want to lose the business in five years."

Case based on correspondence and newspaper clippings from Joseph R. Peckham, Business Agent for RI Council 94, AFSCME.

City of Whittier, California

Keywords: Transit, Failed Contract

Public Bus Service

Like most cities in California, the City of Whittier faced serious budget constraints in the early 1990s. In an effort to cut costs, the city decided to

privatize its public bus service. Following a competitive bidding process that included three private firms, the city awarded a five year contract for the service to a local bus company about seven years ago.

At the end of the private contract, the city decided to bring the bus service back in-house. Poor service quality was the primary reason for the switch. The city received many complaints about dirty busses and underqualified drivers. The accident rate for the private service was significantly higher than when the city did the job, which meant that much of the cost savings from privatization were lost due to the sharp increase in liability claims. Equally important, the bus company cut corners on routine bus maintenance and safety checks, resulting in higher than expected costs for vehicle repairs.

The city's bus fleet is small, with about six buses providing the service.

Case based on interview with Thomas Mauk, City Manger, August 6, 1999.

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