

**A REPORT BY
THE 2012-2013 CONTRA COSTA COUNTY GRAND JURY**
725 Court Street
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Report 1302

**OUTSOURCING MUNICIPAL
SERVICES**

An Alternative Cost-Efficient Approach

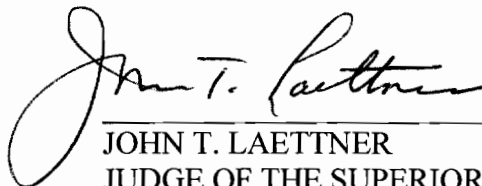
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Contra Costa County Grand Jury Report

OUTSOURCING MUNICIPAL SERVICES

An Alternative Cost-Efficient Approach

TO: The Cities of Contra Costa County

SUMMARY

Difficult economic conditions present significant constraints on revenue available for city operations at a time when there continues to be a strong need for services in many communities. Continuation of traditional methods for balancing revenue available for the cost of those services required may no longer be acceptable. City officials should begin to challenge the operational status quo and explore any and all alternative approaches, such as outsourcing, that present opportunities for reducing costs without jeopardizing the quality and scope of services provided.

Outsourcing is not limited to private vendors. Services can also be outsourced to other public entities, particularly in those instances in which the functions are considered to be essential to protecting the well being and quality of life of citizens, such as law enforcement and public safety. Judging the benefits of these types of opportunities requires that even more stringent evaluations are conducted and that proper consideration is given to both quantitative and qualitative factors and all relevant costs.

Cities in Contra Costa County must review the successful application of outsourcing of municipal services in other cities, inside and outside of the County, in order to determine if this practice can become a key component of addressing the service versus cost issue.

METHODOLOGY

Information was obtained from:

- Case study information
- Independent financial analyses
- Information from industry experts
- Interviews of individuals from the public and private sectors

BACKGROUND

Recently, most, if not all, cities in Contra Costa County have been confronted with decreasing revenues, strong demand for services, a deteriorating infrastructure, structural changes (e.g., dissolution of redevelopment agencies) and growing, unfunded future liabilities. In addressing these challenges, many of the cities in the County have taken traditional approaches, such as reductions in the number of personnel delivering a service, deferral of needed services to an unidentified future date, reducing the scope of services provided, or eliminating services completely. It is apparent that most cities cannot deliver the same level of service today as in past years. Even more alarming, there is no reason to believe this trend will change in the near future.

According to numerous studies, including an extensive report by the City of Colorado Springs in 2009 (“Outsourcing Methods & Studies”), outsourcing can be utilized by cities to cut costs and improve the quality of services provided to its citizens. When correctly applied and executed, outsourcing may increase performance, as well as operational efficiency. In addition, it can help free up limited city resources for other critical, public objectives.

Studies and results of outsourcing by cities within the County have shown that outsourcing should be applied carefully and selectively to those areas where significant cost and efficiency gains can be attained. It has been used by cities to solve various problems, ranging from a lack of internal expertise to a need for significant cost reductions. Many cities have found that equipment, maintenance, or labor costs for providing a service have risen faster than budgeted revenues. In such cases, some have found that the use of contractors can be beneficial by shielding cities from some or all of those cost increases.

Other benefits associated with outsourcing are:

- Improving quality by utilizing a service provider with more knowledge and expertise in providing a particular service
- Reducing the need for direct personnel management
- Freeing the city from bureaucratic constraints
- Removing obstructions to the development of more effective processes, resulting in increased innovation and flexibility to deliver services
- Improving accountability for service delivery by allowing the city the freedom to terminate service providers for poor performance

Outsourcing typically involves a competitive bidding process in which Requests for Proposals (RFP) are solicited from qualified service providers. Proposals are then evaluated and a decision is made based on either a cost or a “best value” basis. Performance is monitored and managed in view of predetermined service goals.

Many cities within the County outsource some municipal services, although the extent of outsourcing varies widely. Lafayette and Oakley outsource almost all of their municipal services, while others outsource only a few. Lafayette contracts for street and sidewalk repair, traffic signal maintenance, roadway striping and stenciling, median landscaping, recreational program delivery, and parks maintenance. By doing so, City management is convinced that it is getting the best combination of price, quality, and flexibility.

Other cities have reported successful and cost effective examples of outsourcing of services such as public works, parks and recreation, information technology, janitorial and legal counsel. In addition, there has been an estimate by at least one private contractor that services, such as public works, could be provided at a cost of 20 to 30 percent less than the cost of using city employees for the same services.

The Colorado Springs study suggests that a city's law enforcement function should not be contracted to private sector vendors. However, in this county, opportunities may be available to some cities to provide this service through another public agency in a more cost effective manner and without jeopardizing reliability and quality of delivery. Specifically, the Contra Costa County Sheriff's Department has contracted with several cities to perform this critical function and the results have been excellent.

As an example, the City of Lafayette has contracted for the Sheriff's service for many years and intends to continue this practice. Periodic reviews by the City of the benefits of using this alternative have reinforced the belief that, at least in this case, it is unquestionably the best option. Furthermore, the process that Lafayette followed in performing a comprehensive evaluation of service alternatives can be used by other cities as an example of an approach that fully considers critical qualitative and quantitative factors and takes into account all costs. Above and beyond personnel costs (salaries and benefits), their evaluation included liability exposure expenses, administrative expenses, and capital expenditure requirements. Lafayette expended the necessary effort to determine the best way to provide public protection and safety services to its citizens and continue to make the reasons for their choice available to the public.

Based upon the Colorado Springs study, and the actual results of outsourcing by cities within the County, the success of outsourcing appears to be related to an adherence to generally accepted "best practices". These practices include:

- Outsourcing should not be considered for services where there are insufficient private sector expertise and experience
- The Request for Proposal process should be restricted to experienced and qualified providers
- Track records and the satisfaction level of past clients of potential service providers should be thoroughly checked, including their financial viability
- The outsourcing decision should be based on the fact that the service cannot be

performed more efficiently in-house (a city should fully estimate the current and future internal cost of providing the service and weigh this against the costs of outsourcing from the private sector)

- Outsourcing should not be used for new programs and initiatives with undefined goals and expectations
- There must be adequate oversight to foster accountability and facilitate quality management
- The political viability of outsourcing also needs to be considered, including the needs and demands of public and private sector labor unions

Despite the real and potential advantages of outsourcing, the process within most cities within the County for analyzing and evaluating whether services could, or should be, outsourced appears to be random, sporadic and/or non-existent.

FINDINGS

1. Some studies have concluded that outsourcing certain city services can result in cost and efficiency improvements.
2. Outsourcing is being successfully utilized by many cities within the County, although the extent of outsourcing varies widely.
3. Outsourcing is not a solution for all cost and performance problems and should only be considered after other efforts to optimize operations have been implemented.
4. Recommendations of “best practices” to implement outsourcing initiatives are available for cities to review.
5. Most cities in Contra Costa County do not have a regular and formalized process for evaluating whether each municipal service could effectively be, or should be, outsourced.

RECOMMENDATIONS

The Grand Jury recommends that:

1. Cities within the County review case studies and evaluations of the pros and cons of outsourcing municipal services.
2. Cities identify those services for which outsourcing hold an opportunity for cost savings and efficiency improvements.
3. Cities conduct analyses that estimate the internal cost-of-service and weigh that

against the cost of outsourcing. For meaningful comparison, analyses should include a measure of the costs related to managing employee payroll, pension and health benefits, workers' compensation claims, and other personnel management functions. Cities' governing bodies should consider "identifying funds" to carry out these activities. The analyses should be implemented as a formal process, conducted on an annual basis and provided in a written document.

4. City officials inform residents of the results of those analyses and explain the reasons for action (outsourcing of a service) or in-action (continuation of the use of internal resources).

REQUIRED RESPONSES

	<u>Findings</u>	<u>Recommendations</u>
City of Antioch	1-5	1-4
City of Brentwood	1-5	1-4
City of Clayton	1-5	1-4
City of Concord	1-5	1-4
Town of Danville	1-5	1-4
City of El Cerrito	1-5	1-4
City of Hercules	1-5	1-4
City of Lafayette	1-5	1-4
City of Martinez	1-5	1-4
Town of Moraga	1-5	1-4
City of Oakley	1-5	1-4
City of Orinda	1-5	1-4
City of Pinole	1-5	1-4
City of Pittsburg	1-5	1-4
City of Pleasant Hill	1-5	1-4
City of Richmond	1-5	1-4
City of San Pablo	1-5	1-4
City of San Ramon	1-5	1-4
City of Walnut Creek	1-5	1-4