

A BEST PRACTICES REVIEW

PRIVATIZATION OF

LOCAL GOVERNMENT SERVICES

DECEMBER 1996

1995-96 Joint Legislative Audit Committee Members

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State Auditor - Dale Cattanach

Editor of Publications - Jeanne Thieme

Audit Prepared by

Don Bezruki, Director - Contact Person
Matthew Massman
Christopher Black

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State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

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DALE CATTANACH
STATE AUDITOR
SUITE 402
131 WEST WILSON STREET
MADISON, WISCONSIN 53703
(608) 266-2818
FAX (608) 267-0410

Senator Kimberly M. Plache and
Representative Mary A. Lazich, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Plache and Representative Lazich:

We have completed a best practices review of local government operations as required by s. 13.94(8), Wis. Stats. Privatization of local government services was selected as the topic of our review with the assistance of the Local Government Advisory Council, which consists of representatives of counties, cities, villages, and towns.

Nearly 50 percent of the local governments responding to our survey reported that within the past seven years, they had initiated at least one contract for services with a private vendor. Survey respondents most often reported contracts for solid waste collection, recycling, building maintenance, building inspection, and road and street repair services.

Local governments commonly consider contracting with private vendors as a way to reduce service costs; however, careful assessment is necessary to ensure desired benefits will be achieved. In particular, before entering a contract, the full costs of government service delivery must be measured and compared to estimated contracting costs. In addition, service delivery decisions need to take into account whether a delivery system is consistent with the local government's goals and objectives for the service, including quality, control, and long-term stability, as well as the requirements of existing laws and legal obligations.

Based on the contracting experiences of several counties and municipalities, as well as professional and academic literature, this report identifies best practices to follow when contracting for public services. Specific practices are identified for local governments to consider in selecting vendors, specifying service expectations and administrative responsibilities, and establishing monitoring procedures.

We thank the Local Government Advisory Council for its assistance in selecting the topic for our review, and we appreciate the courtesy and cooperation extended to us by local government staff.

Respectfully submitted,


Dale Cattanaach
State Auditor

DC/DB/aw

SUMMARY

Provisions contained in 1995 Wisconsin Act 27, the 1995-97 biennial budget, direct that the State Auditor periodically review local government operations to identify cost-effective techniques, or “best practices.” In contrast to typical audits, which identify problems or weaknesses in government operations, best practices reviews seek to assist local officials by publicizing successful approaches to solving problems faced by local governments. With the assistance of a five-member advisory council, efforts to privatize local government services was selected as the subject of Wisconsin’s first best practices review.

While privatization refers to various approaches that incorporate private-sector market incentives into the delivery of public services, such as discontinuing government services that can be purchased from the private sector or replicating market features in the design of government agencies, the most common form of privatization involves contracts between local governments and private vendors. Services for which local officials commonly reported contracting include solid waste collection, recycling, building maintenance, building inspection, and road and street repair services. Therefore, we identified issues for local governments to consider when assessing whether to contract for public services, as well as the best contracting practices to follow.

To determine whether contracting will be cost-effective, best practices require that contracting decisions be based on a detailed comparison of costs for government service delivery and contracting costs. Costs for government service delivery include both direct costs, such as staff salaries, materials, and equipment, and indirect costs associated with management and administrative support functions. Contracting costs include the fees paid to or revenues retained by the contractor, as well as costs for selecting a vendor, converting to privately provided services, and contract administration. In addition, cost comparisons must consider the extent to which future costs will change.

The best contracting practices of local governments also balance efforts to reduce government costs with efforts to ensure service needs and other policy objectives, such as service quality, control, and service stability, are also met. An awareness of market conditions and the willingness of private vendors to compete for a government contract may influence comparisons of costs and of the advantages and disadvantages of service alternatives in meeting other policy objectives. Because federal and state laws and other legal obligations may limit the service delivery options available, a review of such requirements will assist local officials in identifying practical service delivery options.

If local officials determine that contracting is the best option for delivering public services, following the best contracting practices will help ensure success. Summaries of the best practices used by Wisconsin counties and municipalities for selecting a vendor, developing a contract, and monitoring contract implementation follow. The body of the report discusses the experiences of several local governments to illustrate these best practices.

Best Practices for Selecting a Vendor

Develop Service Specifications

Develop detailed written descriptions of:

- service tasks to be performed and the tangible products to be delivered;
- responsibility for maintaining equipment or facilities; and
- the standards by which performance will be measured.

Recruit Vendors

Design a request for proposals or bid request that provides potential vendors the information necessary to develop realistic proposals and identifies the information vendors must provide, such as:

- a description of how the vendor intends to perform the required services as specified;
- an estimate of the cost of providing the required services in the format requested;
- an inventory of equipment that will be used to provide the service, if applicable;
- evidence of financial viability; and
- evidence of professional qualifications and experience, including references from entities for which the vendor has supplied similar services.

Evaluate Potential Vendors

Objectively evaluate vendor proposals based on established criteria, ensuring:

- that the persons charged with evaluating proposals have a clear understanding of service needs and policy objectives;
- that cost objectives are balanced with the need to meet minimum levels of service and quality; and
- that final approval from elected officials or a designated government manager is required.

Best Practices for Developing a Contract

Describe Service Expectations

Include detailed descriptions of the service a vendor is expected to provide, as well as the standards against which quality will be measured.

Describe Administrative Requirements

Include a detailed description of administrative expectations and responsibilities, such as:

- the contract period and the conditions under which the contract may be extended;
- the procedures for calculating and making compensation, including limits on total compensation and the services to be delivered before compensation is received;
- insurance requirements;
- requirements for collecting and reporting information on service quality, as well as provisions specifying access to service-related records and service sites; and
- procedures for the resumption of government-delivered services or the delivery of service by another provider.

Enforcement Provisions

Develop provisions that will protect the public interest if services do not meet expectations or if disputes arise between the vendor and public officials, such as:

- requirements for performance bonds;
- penalties for non-performance, including a description of the conditions under which penalties will be enforced and how penalties will be applied; and
- procedures authorizing contract termination and specifying the conditions under which a contract may be terminated.

Best Practices for Monitoring Service Delivery

Methods for Monitoring

Establish a system for monitoring contract activities and performance on an ongoing basis, including identifying the tools that will be used to measure and assess contract compliance and the process for collecting information, such as routine communication with the vendor and constituents.

Responsibility for Oversight

Assign responsibility for oversight to a specific individual or entity and ensure that those charged with contract oversight have the necessary expertise and authority to assess service quality and enforce contract provisions.

Finally, because service needs and conditions affecting service delivery may change over time, contracting decisions must be re-evaluated periodically to determine whether contracting continues to be cost-effective. New service delivery systems, such as those that require public employees to compete with private vendors for public contracts, are being used with increasing frequency by local governments and may expand the options against which contracting can be compared.

INTRODUCTION

The review seeks to identify the best practices for privatizing local government services.

1995 Wisconsin Act 27, the 1995-97 biennial budget, directs the State Auditor to review local government operations periodically to identify effective methods of government service delivery, or “best practices.” The State Auditor is to determine the frequency, scope, and subject of best practices reviews, although Act 27 establishes an advisory council to assist with the selection of review topics. The council’s five members represent counties, cities, villages, and towns, and are listed in Appendix I. In contrast to typical audits, which identify problems or weaknesses in government operations, best practices reviews seek to identify cost-effective approaches to the problems faced by local governments. Privatization of local government services was selected as the subject of Wisconsin’s first best practices review.

Contracting for services is the most common form of privatization.

Privatization refers to various approaches to the delivery of public services that incorporate private-sector market incentives. It may include discontinuing government services with the expectation that the private sector will continue to provide them, or replicating features of private enterprises in the design of government agencies. However, the most common form of privatization involves local governments contracting with private vendors for the provision of new services or services previously provided by government employees. Therefore, we identified issues for local governments to consider when assessing whether to contract for public services, as well as the best practices to follow when contracting for services, be it with nonprofit or for-profit vendors.

Recent contracting efforts were reported by 49.7 percent of local governments responding to our survey.

Local governments in Wisconsin have traditionally contracted for some services, especially social service functions. To determine more recent trends in contracting, we surveyed 996 local governments about their new contracting efforts over the past seven years. As shown in Table 1, 49.7 percent of the local governments responding to our statewide survey indicated they began contracting with private vendors for at least one service within the past seven years. Solid waste collection is the service for which new contracting was most commonly reported, followed by recycling, building maintenance, building inspection, and road and street repair services. Our survey results also indicated that services that many citizens consider essential government responsibilities, such as police and fire protection, traffic and parking enforcement, and water and sewer service delivery, are rarely privatized.

Table 1

New Contracting by Local Governments Since 1989

<u>Unit of Government</u>	<u>Number of Respondents</u>	<u>Number Reporting One or More New Service Contracts</u>	<u>Percentage Reporting New Service Contracts</u>
County	46	23	50.0%
City	66	41	62.1
Village	120	60	50.0
Town	<u>94</u>	<u>38</u>	40.4
Total	326	162	49.7

Services contracted for may vary with local needs and the availability of private vendors. Communities located in more densely populated regions, particularly southeastern Wisconsin, were more likely to contract with private vendors for public services. For example, while 46 counties responded to our survey, Milwaukee County, Racine County, and Waukesha County accounted for 43 percent of reported contracts. The other southeastern counties that responded to our survey—Dodge, Jefferson, and Walworth—accounted for an additional 12 percent of the reported contracts with private vendors.

Most local governments reported pursuing service contracts to reduce government costs.

Comments made by survey respondents regarding the feasibility and success of contracting efforts suggest that most local governments:

- pursue contracting to reduce the cost of government operations;
- make attempts to determine the costs of providing government services before contracting, although fewer than one-half verify whether expected savings are actually realized;
- receive bids or proposals from two or more interested vendors before contracting for services; and
- are concerned about maintaining service quality and adequate vendor oversight, and while some believe the quality of contracted services is the same or better than government-delivered services, others believe service quality in their communities declined when contracting.

In addition, smaller governments are concerned about the availability of qualified vendors interested in providing services.

The survey included all counties, cities, villages, and towns with populations of 2,500 or greater, as well as a randomly selected sample of towns with populations of less than 2,500. It is reproduced in Appendix II. Because survey responses reflect only contracts initiated in the past seven years, it is likely they understate the number and extent of local government contracts with private vendors. A complete listing of reported contracts since 1989 is contained in Appendix III.

Survey results, interviews with selected local government officials, and relevant literature on privatization indicate that before approaching potential contractors or entering into a contract, local governments must define their service needs and policy objectives so that they are able to identify and evaluate service-delivery options. If the evaluation process suggests local needs will best be met by contracting with a private vendor, service specifications and other criteria for vendor selection must be developed, an effective contract must be negotiated, and service quality must be monitored. This report discusses the best practices of local governments in these areas.

THE DECISION TO CONTRACT

Decisions to contract must consider costs and other service-delivery priorities.

Decisions to contract for public services are often made with the expectation that private vendors can provide services at a lower cost than government. In addition, local governments may pursue contracting to enhance service quality or to achieve greater flexibility to respond to rapid changes in technology. Regardless of the reason for pursuing contracting, assessments of service delivery options must both compare the full costs of government service delivery to the full costs of other service delivery options and consider the importance of cost savings relative to other service delivery priorities, such as quality and accountability. Further, existing laws or labor agreements may limit available service delivery options.

Service Costs

Local governments responding to our survey reported 341 new service contracts since 1989. Local governments developed cost estimates for government service provision before entering 66 percent of those contracts. For example, Waukesha County projected it would save \$140,000 annually by contracting for jail food services, Racine County projected it would save \$140,545 annually by contracting for housekeeping services at its nursing home, and the City of Wauwatosa projected it would save \$64,000 annually by contracting for yard waste collection services. Assessments of whether contracts resulted in actual cost savings were made for 43 percent of the contracts, and 79 percent of these reported realizing the projected savings. However, information provided on some estimates suggests that the full costs associated with decisions to contract are not considered consistently. We did not review the cost estimates reported by local governments.

Total government costs should be compared to projected contract costs before contracting.

To evaluate cost-effectiveness, governments need first to determine total existing costs, then to compare the cost of having government provide services directly with the cost of contracting for services. Government costs include direct costs to provide a service, as well as indirect costs associated with functions such as clerical and management support. Contracting costs include the fees paid to or revenues retained by the contractor, plus costs for converting to private service provision and contract administration. Because future costs of service delivery may fluctuate as a result of changes in market conditions and community needs, estimates of future costs must also be compared.

Determining Government Costs

Government costs include both direct and indirect costs.

While local government officials we spoke with agreed about the importance of determining costs associated with government service delivery, we also noted that the ability to measure those direct and indirect costs varied considerably. In determining direct costs, local governments should typically include items such as costs for staff salaries and benefits, supplies and materials, capital facilities and equipment, depreciation in equipment value, and any other costs attributable solely to the production and delivery of a service. Equipment and facility costs may include cash purchases, debt service costs, or maintenance costs.

The process used by Racine County officials when considering whether to contract for golf course management services was effective in identifying all relevant direct costs. County officials used prior year revenue and expense reports to identify direct costs associated with the operation of each of its two public golf courses, including costs for wages and benefits, equipment, materials, utility charges, advertising, retail items, sales taxes, and administration, as well as amounts for their amortization of course improvements and equipment. County officials then identified the amount by which golf course revenues exceeded expenditures, because they wanted to ensure that the golf courses continued generating comparable or greater profits if they contracted for management services.

As illustrated in Worksheet 1, in addition to direct costs, a complete assessment of government costs also should consider indirect costs that support the efforts of several services and cannot be attributed solely to the provision of a particular service. Indirect costs may include a portion of the management costs and administrative costs, such as for personnel services and processing staff payroll. While a variety of approaches may be used to estimate indirect costs, a typical method is to allocate indirect costs across all government programs based on the percentage of total direct costs attributable to each program. For example, if 1 percent of the municipality's direct expenditures are for solid waste collection services, then 1 percent of all indirect costs may be assumed to be for solid waste collection services.

Worksheet 1

Cost of Government Service Delivery

<u>Cost Element</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Direct Costs:			
Salaries, Wages, and Benefits			
Supplies			
Facilities and Equipment			
Depreciation on Capital			
Indirect Costs:			
Support services			
Payroll services			
<u>Personnel services</u>	_____	_____	_____
Total			

Cost comparisons should include only costs that will be eliminated by contracting.

When assessing whether contracting will reduce the cost of providing a service, local officials need to identify which costs of government service delivery will actually be saved if a service is privatized. For example, while contracting for a service may reduce the need for several staff positions, materials, and equipment, it may not sufficiently reduce the workload of central management and payroll staff to achieve savings in indirect costs. Further, when the employees responsible for delivering a government service will not be eliminated by contracting, the extent to which staff costs will be saved depends on whether the employees can be assigned other necessary responsibilities. In all cases, indirect costs need to be tracked to determine whether the cumulative effect of multiple contracting decisions is a reduction in costs.

Because the costs of providing a service may vary from year to year, cost assessments should also attempt to take into account how the costs associated with government service delivery may change in the future. Although future costs can be difficult to predict, information in several areas, including recent trends in the demand for services and the cost of materials and staff, anticipated results of labor negotiations, proposed or expected changes in federal or state laws, and plans for the expansion of government facilities or programs, may provide an indication of how future costs may change. The time frame of estimates of future costs for government service delivery should be the same as the period for which contracting is being considered.

Determining Contracting Costs

Contracting costs include fees, costs for converting to private services, and administrative costs.

In determining contract costs, local governments should consider all costs associated with a contract, not just direct vendor payments. As illustrated in Worksheet 2, total contracting costs may include:

- contract fees, or the amount a contractor will charge to perform a service or will retain from revenues collected during the operation of a public enterprise;
- conversion costs, which may include unemployment compensation and severance payments for displaced government employees, expenses for transferring equipment to the contractor, and other costs associated with the change from direct government service to delivery by a private vendor, and which should be amortized over the life of the contract; and
- contract administration costs, such as costs associated with selecting a vendor, negotiating a contract, monitoring contract activity, evaluating vendor performance, and resolving disputes.

Worksheet 2

Government Costs Versus Contract Costs

<u>Cost Element</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Government Costs:			
Salaries, Wages, and Benefits			
Supplies			
Facilities and Equipment			
Depreciation on Capital			
<u>Indirect Costs</u>	_____	_____	_____
Total Government Costs			
Contracting Costs:			
Contract Fees			
Conversion Costs			
<u>Contract Administration</u>	_____	_____	_____
Total Contracting Costs			

For example, representatives of several communities that contract for solid waste collection indicated that their contracting costs consisted primarily of the fees paid to the vendor. A more comprehensive calculation of contracting costs would include costs incurred by the municipality to select a vendor and negotiate a contract, monitor contract activities, and field complaints or comments from citizens. In addition, conversion costs associated with moving from government-provided services to contracted services, such as unemployment compensation payments or costs for retraining staff, should also be calculated. For example, Racine County officials determined that by contracting for golf course management services, the county would eliminate all direct costs associated with golf course operations, with the exception of four positions protected by its labor agreement. The county estimated it would incur some costs to absorb these four staff into its workforce, since comparable positions were not readily available. Therefore, the county included those costs when determining the portion of golf course revenues it required the vendor to remit to the county.

Cost comparisons should also consider how costs may change in the future.

In considering potential cost savings, local officials should also consider how contracting costs may change in the future. For example, economic theory suggests that future contracting costs may be affected by the level of competition in the private sector. In particular, competition in the private sector may result in private vendors being able to provide some services at a lower cost than government and may lead to price stability over time. The experience of local governments indicates that prices and price stability are best in service areas where government is not the only customer and vendors that do not have government contracts remain active in the market. While the number of private vendors interested in government contracts is typically greater in more populated regions and in service sectors for which there is broad demand within and outside government, such as building maintenance services and legal services, competitive markets have also developed around public services traditionally performed by government employees, such as solid waste collection and building inspection. Although a single interested vendor may be able to deliver public services at a lower cost than government, contract provisions or other techniques may be used to avoid relying totally on market conditions to ensure stable prices.

Finally, the number of private vendors able and willing to compete for a government contract may be affected by the scope of services requested. For example, while small vendors may be interested in government contracts and capable of providing a service on a limited scale, their ability to compete for large-scale projects may be limited relative to some vendors. Local governments may consider alternative approaches to framing requests, such as breaking service needs into smaller requests or developing incentives that foster the interest of smaller vendors, in order to facilitate competition without undermining service objectives.

Balancing Costs and Service Objectives

Cost objectives must be balanced against other service objectives, such as quality and accountability.

While reducing costs is a primary reason for which public officials seek alternative service options, a service delivery system must also be consistent with other service objectives, as well as expectations for quality and public accountability. Developing an understanding of the importance of these objectives relative to efforts to reduce costs will assist local officials in selecting the service option most appropriate for their needs.

Compatibility with Service Needs

A delivery system must be capable of meeting service needs and compatible with local conditions.

Local governments have used a variety of strategies to involve professionals, elected officials, and citizens in determining how best to meet service needs. While an analysis of delivery options will vary by service, such assessments may consider the extent to which a service delivery system:

- is compatible both with local needs and objectives and with local conditions, such as geography and existing infrastructure;
- has the capacity to meet current demand for services and the flexibility to respond effectively to changes in the demand for services over time, including seasonal needs;
- will provide the expertise and experience necessary to perform required tasks; and
- is consistent with broad public policy goals, such as achieving minimum wage levels, fostering equal access for minority groups, or meeting environmental expectations.

An example of how a local government may consider both costs and other objectives can be found in Waukesha County's decision to contract for specialized transportation services. Prior to contracting in 1993, the county's department of aging operated two specialized transportation programs: the Ride-Line, which served elderly and disabled residents who required special assistance or vehicles on an appointment basis; and Parallel Commuter Transit, which provided service to disabled persons along established public transit routes. Concerns regarding the cost and quality of services led local and regional officials to re-evaluate their approach to providing specialized transportation.

To address concerns regarding unmet transportation needs of elderly and disabled residents, a 1993 study, conducted by the Southeastern Wisconsin Regional Planning Commission's recommended that the county increase the daytime capacity for passengers with special needs, expand the days and hours

of regular services, and reduce the advance reservation requirements from 48 hours to 24 hours. Waukesha county officials then hired a consultant to study service delivery options and determine the best means for implementing services. In addition, they created a specialized transportation contract committee that included elected officials and county staff.

The consultant and committee jointly identified necessary service changes and estimated future service needs. Options for altering the county's operations, and the tools and resources needed to implement change, were also identified. In addition, to determine private vendors' capabilities and whether contracting for all or a portion of the service would be effective, the county issued a request for proposals. Potential vendors were asked to describe how the service could be provided, what vehicles would be used, their experience in providing transportation to the elderly and people with disabilities, and a proposed budget for the contract period.

During its review of local transportation needs, Waukesha County realized it would need to expand existing services and that doing so would require costs for computerizing operations, purchasing additional vehicles, hiring additional employees, and modernizing radio communications. Cost comparisons revealed that two vendors were willing to provide services at rates significantly lower than the county's costs, while also offering improved dispatching systems and higher passenger volumes. Consequently, the county determined that contracting would allow it to prepare for increased transportation demands without assuming the risk of increased future costs that were difficult to predict with reasonable accuracy.

In addition, because both public and private service delivery systems may experience complications that undermine stability, determining the relative risks associated with potential service interruptions will help local officials assess whether a service delivery option is consistent with local needs. Risks associated with service interruptions may include consequences for public health and safety; potential for disrupting the daily routines of citizens, commerce, and government; and the potential for loss of public resources. In particular, comparisons of service delivery options may consider:

- whether contracting increases the potential for unanticipated interruptions in service delivery resulting from financial instability;
- a vendor's obligations to other clients and potential reliance on subcontractors for materials or services;
- the complexity of the tasks to be performed and the extent of access to necessary expertise; and

- whether differences in employee turnover between public and private providers will affect the completion of service requirements, as well as the quality of services.

Achieving Quality Services

Expectations for service quality must be established.

Quality can be difficult to define and to quantify; however, local governments have found that expectations for service quality must be considered to ensure the most effective use of resources. In evaluating the ability of a service delivery system to meet quality expectations, issues that may be considered include:

- the ability to develop written descriptions of the quality standards expected, including quantifying timeliness and expected results;
- expertise and authority to meet expectations for the physical condition of publicly owned equipment, facilities, or property; and
- the extent to which other obligations, such as other customers or other agency duties, limit effectiveness.

A review of wastewater treatment facilities by City of Antigo officials illustrates how the identification of quality concerns related to current services may affect service delivery decisions. After determining that the city's process for purchasing equipment and planning maintenance for its wastewater treatment facility contributed to higher costs and inadequate maintenance of the facility, city officials identified a variety of strategies, including hiring a new plant operator, contracting with a vendor solely to develop plans for maintenance and capital improvements of the facility, and contracting for facility operation. City officials studied the feasibility of contracting for wastewater treatment services by working with potential vendors to determine the types of services that could be provided; ultimately they decided to contract for operation of the facility, because they believed that was the most cost-effective way to ensure it was maintained properly and operated in compliance with regulatory requirements.

The City of Brookfield's decision to use a private firm to collect emergency medical service fees was prompted by concerns that the time spent on collections was both reducing staff time available for other responsibilities and having limited success. As a result, the city reviewed alternatives for collecting past-due fees and determined it could improve both service quality and revenue collection by contracting for collection services. City officials believe the dollar amount of fees collected has increased because the firm has expertise in billing administration and dealing with insurance companies that city employees, who also had other responsibilities, were unable to develop.

The level of competition may influence a vendor's commitment to quality.

Comparing the ability of service delivery options to meet long-term quality objectives may also involve reviewing market conditions to assess the likelihood that competition in the private sector will enhance service quality, as suggested by market theory. Strategies for investigating market strength and the interest of potential vendors include obtaining information from businesses that have previously offered to provide public services, as well as from advertisements, local government publications, other communities that have contracted for similar services, or business associations. Some communities place advertisements in local and regional media and in business or trade journals to identify firms that may be interested in providing services; others hold formal or informal discussions with businesses to inquire about their capacity and interest.

Control Over Service Delivery

Contracting may reduce a local government's control over service delivery.

Because local officials continue to be accountable to the public for services being delivered by a private contractor, local governments may also consider the control public officials have over service delivery. In particular, public accountability may be affected by:

- the need for a service provider to exercise independent judgment or to interpret public policies while delivering a service;
- the extent to which local officials will have the ability to make changes in daily operations in response to citizen complaints or changes in service needs;
- the severity of the potential consequences of diminished control; and
- the extent to which expectations can be formalized into policies, procedures, or contract provisions.

Differences in the authority of public and private service providers may affect the ability to respond to special or emergency circumstances. For example, Milwaukee County officials raised concerns about whether the staff of the private firm hired to provide security services at the County's Department of Human Services facilities, which had previously been provided by the Milwaukee County Sheriff, have the ability and authority needed to respond to emergency or violent situations. Since the provision of most services requires both managers and line staff to use their judgment, local governments need to assess their willingness to delegate decision-making responsibility to non-governmental employees and the extent to which variations in expertise or authority may affect service delivery.

Our survey of contracting activities, as well as surveys conducted by the International City/County Management Association, indicate services that may affect public safety or require interpretation of public policies are not likely to be delivered by private vendors. For example, a 1992 study completed by the Association indicates that police services are delivered by private vendors in only 2 percent of cities and counties nationally. It also appears rare for cities and counties to contract for other highly visible services. For example, only 4 percent contracted for fire prevention and suppression services, and 5 percent for code enforcement. No local governments responding to our survey reported contracting with a private vendor for police or fire protection services. In contrast, services that are commonly provided by private vendors, such as building maintenance and inspection services, may have less extreme or immediate effects on the public health and safety if the performance of the private vendor fails to meet expectations.

Legal Requirements

A local government's ability to contract may be affected by legal requirements, such as labor and grant agreements.

The options available to local governments for delivering services may be limited by laws establishing requirements for program operation, as well as by provisions in funding agreements with state government or other granting agencies. In addition, local officials must consider whether service delivery options will be affected by agreements between labor officials and government managers, as well as by the relationship between labor and management. In particular, labor agreements may contain specifications for the treatment of employees with respect to compensation, job displacement, and transfers to new positions.

Because federal and state laws may affect how local services are provided, reviewing such requirements will help identify the service delivery options available, as well as parameters for the services being provided and the design of service delivery systems. For example, a county considering contracting for social services will need to consider the ability of vendors to meet the general accounting and management information requirements contained in state statutes, as well as related standards for service developed by the Department of Health and Family Services.

In addition, funding agreements may establish criteria for how funds may be spent, as well as for how services must be organized and delivered. For example, a community considering changes in the delivery of recycling services will need to consider that to be eligible for state recycling grant funds, local governments must meet established state standards for the operation of a recycling program. However, even if the service being provided is funded primarily with local revenues, as is the case with solid waste collection services, federal and state environmental laws may affect what services are offered and how services are delivered.

Some labor agreements prohibit the use of contracting.

Further, while labor agreements with public employee unions vary throughout the state, some explicitly prohibit the use of outside vendors, and others stipulate that displaced public employees must be offered comparable positions with the local government employer. As a result, such agreements affect the potential advantages of contracting, including costs savings, as well as the design of contracting arrangements.

All decisions to contract should consider the effect on public employees.

The following experiences of three communities illustrate the need to consider the impact of labor agreements when planning to contract for services.

- City of Wauwatosa officials wanted the flexibility to contract with private vendors when doing so would reduce the cost of providing services. However, because the city's labor agreement prohibited contracting, city officials negotiated a new agreement that offered labor certain concessions in exchange for the authority to contract for services as long as doing so does not cause an employee to lose his or her job or reduce employee compensation.
- City of Antigo officials and union representatives worked cooperatively to ensure that the city could contract for operation of its wastewater treatment facility as long as the city's four existing employees were provided comparable positions with the private contractor. As part of negotiations, labor officials also agreed to allow the city to pursue contracting in other areas after five years, in exchange for the city's agreement to refrain from entering into any contracting arrangements that would result in loss of employment or a change in duties for union workers.
- Village of Saukville officials contracted for wastewater facility management and other public works services after efforts to negotiate a labor agreement that would allow contracting failed. Village officials believed they would meet a requirement in their labor agreement that workers not be displaced by requiring the contractor to hire former employees for similar positions at comparable or better pay. However, the Wisconsin Employment Relations Commission subsequently deemed the village's actions violated the labor agreement, finding that the requirement not to displace workers was intended to mean positions with the village, not with another employer.

Even when not required by labor agreements, local officials may want to consider the potential effect, if any, that a service delivery system could have on current employees. Approaches used by local governments to avoid laying-

off public employees when privatizing services have included offering the affected employees transfers to other departments, reducing employment levels through attrition, and requiring contractors to give preference to existing public employees when hiring.

BEST PRACTICES FOR CONTRACTING

Best practices for contracting include the evaluation of potential vendors and the effective development and oversight of contracts.

If an evaluation of alternative service delivery options confirms that contracting with a private vendor is the best way to meet local needs, local governments must identify and evaluate potential vendors, negotiate an effective contract, and monitor service quality. The contracting experiences of local governments we interviewed illustrate best practices for:

- selecting a vendor, including developing service specifications, requesting proposals that will address local needs, and evaluating potential vendors;
- developing a contract that describes service requirements, administrative expectations, and enforcement mechanisms; and
- monitoring to ensure an agreed-upon level of service is being delivered and long-term service objectives are achieved.

Vendor Selection

Best practices for establishing a successful contracting arrangement begin with the recruitment and evaluation of potential vendors. To ensure the selection process is fair and identifies the best-qualified vendor, local governments that have contracted successfully develop detailed descriptions of their service expectations and the standards against which performance will be measured before they request proposals or bids from vendors. They also require potential vendors to provide specific information so that they are able to evaluate and compare vendor qualifications.

Developing Service Specifications

Effective contracting requires service needs to be fully specified.

Written specifications ensure that local governments and potential vendors have common expectations of service requirements. For example, the tasks associated with solid waste collection may seem straightforward, but useful service specifications could include a description of materials to be collected or not collected, such as large pieces of furniture or small items piled on the curb; the hours and days of service; performance requirements, such as returning garbage cans to the general location at which they were found; and accommodations for special service needs, such as collection of old appliances.

Service specifications are typically developed from information provided by employees with associated responsibilities, including department heads, supervisors, and local government staff currently providing the service, as well as from elected officials and constituents. Local governments with limited technical expertise in a service area may involve non-government professionals, members of the academic community, or others in developing service specifications. Some communities obtain final approval of service specifications from legislative bodies and government managers in order to ensure public accountability and avoid misunderstandings of contracting goals.

The experiences of Racine County and the City of Fitchburg illustrate two effective processes for determining service needs and expectations. In Racine County, procurement staff and legal counsel, as well as management and supervisory personnel from the county's nursing home, cooperated to develop nursing home service specifications for essential operations that included housekeeping, activity therapy, and pharmacy services. Both the nursing home director and service supervisory staff had knowledge of existing operations that was essential for identifying necessary tasks and developing the standards by which contractor performance would be measured. These tasks and standards, along with provisions regarding insurance requirements and liability, were used as the basis for a request for proposals sent to vendors that had previously expressed interest in providing services.

Fitchburg's recycling project manager developed service specifications and quality standards for solid waste collection by referring to specifications developed by other communities, discussing community needs with vendors that provide the service, and reviewing citizen complaints about service quality under previous contracts. The specifications that the project manager developed were reviewed and approved by the city's public works board before they were sent to vendors as part of a request for proposals. Vendor proposals were reviewed and evaluated by the public works director and the recycling project manager, who jointly recommended a vendor to the city's governing board.

Vendor Recruitment

Potential vendors should be provided with a comprehensive written description of service expectations.

While the best approach to recruiting vendors may vary depending on the characteristics of the service and on market strength, successful recruitment practices result in multiple competitive proposals or bids. Best practices require that potential vendors should be provided with a comprehensive written description of service expectations, including:

- a description of the services to be performed and the standards against which performance will be measured;

- a listing of any tangible items to be delivered or specific tasks to be completed;
- a time line for service delivery;
- minimum expectations for service quality;
- criteria and procedures to be used in evaluating potential vendors; and
- procedures for developing and submitting a response.

In addition, recruitment practices should reflect any broad policy objectives the local government hopes to further through contracting, such as steps to encourage opportunities for minority or women-owned businesses. Efforts to attract such vendors may include sending requests for proposals to minority and women-owned trade organizations, and advertising in minority and community newspapers. In general, recruitment strategies may include advertisements in local and regional media and business and trade journals, as well as through discussions with business and industry representatives.

Although efforts to avoid conflicts of interest should be ongoing, limitations established during vendor recruitment will help ensure that such conflicts are avoided. For example, one local government contracted for services with a private vendor after an employee responsible for providing similar services in-house left the local government to work for the private firm. While the vendor was selected through a competitive recruitment process and local officials are satisfied with the cost and quality of the services provided, such practices can raise the perceptions of conflict of interest. Depending on the size of the community and the number of interested vendors, strategies for avoiding conflicts of interest may involve prohibiting the hiring of former employees for a period of time, or relatives of public employees; ensuring that requests for bids and proposals reach a broad audience; and establishing a process for anonymously reviewing bids or proposals.

Best practices for vendor recruitment also require that vendor responses include a description of how a service would be provided according to the expectations contained in the request for proposals or bid. Vendors may also be required to submit proprietary information for local officials to use in determining whether service expectations can be met at a competitive price. Such information may include financial and personnel records, as well as information concerning management staff and business ownership. Vendors may also be asked to furnish customer references.

For example, the request for proposals developed by the Waukesha County Department of Aging to solicit transportation services for individuals with special needs provided detailed information regarding the service area and hours of operation, trip priorities and passenger fares, minimum qualifications

and training requirements for drivers, minimum vehicle equipment needs, and requirements for a radio dispatching system. Potential vendors were required to describe:

- how they would provide transportation services, including procedures for reservations, scheduling, and dispatching;
- the vehicles to be used and vehicle maintenance plans, including whether maintenance and repairs would be performed in-house or by another firm;
- their experience in providing transportation for elderly and disabled persons, including contact names from other customers and the total trips provided to clients;
- their radio communication system; and
- their organizational structure and proposed budget under the contract, including the number of trips the vendor planned to provide to other customers during the same period.

In addition to this information, which was required to assist county officials in assessing vendor qualifications, county staff also examined the condition of the vendors' vehicle fleets and the vendors' safety records, to assess whether services could be provided safely. Vendors were also required to provide information on their insurance, including general commercial liability, automobile liability, worker's compensation, and umbrella liability coverage.

Evaluating Potential Vendors

Vendors should be selected on the basis of their ability to meet established criteria.

To ensure a fair process for selecting a vendor that will provide the best service at the best price, local governments need to evaluate proposals against objective criteria that are established before vendors are recruited. Evaluation criteria should reflect local needs and policy priorities regarding cost, service quality, control over service delivery, and other priorities. The strategies used to evaluate potential vendors may vary depending on local priorities, but they typically involve persons having technical expertise or experience in the service area.

For services that are commonly provided under contract and readily available in a competitive market, some local governments may focus their evaluation of vendors almost exclusively on costs, believing that any experienced vendor whose proposal meets minimum service requirements, and whose references are satisfactory, will be motivated to provide quality services by the government's ability to choose another vendor. For example, when Milwaukee County contracted for data entry services, a contract was awarded to the

vendor that submitted the lowest bid, after references were contacted and service demonstrations were observed.

In other cases, local governments have considered cost as only one of several criteria with which to evaluate vendor proposals. For example, the committee established by the Waukesha County Sheriff, consisting of a jail administrator, a correctional facility manager, the department's business manager, the county's senior buyer, and a jail food service manager from another county, used a 100-point weighted scoring system to evaluate proposals for providing food service at the jail. Proposals were given scores of up to 10 points for experience at similar facilities, 20 points for the individual qualifications of employees assigned to deliver services to the county, 10 points for responsiveness to the county's needs as specified in the request for proposals, and 20 points for the planned service delivery approaches. These scores were then combined with scores for vendor cost proposals, which were evaluated separately and awarded up to 40 points, and the vendor with the highest cumulative point total was recommended. To ensure public accountability, the Waukesha County Sheriff, an elected official, had final approval over the committee's recommendation.

Similarly, when the City of De Pere selected a law firm to prosecute municipal ordinance violations, vendor proposals were scored by a selection team consisting of the city attorney, police chief, and personnel director, using eight weighted criteria that included vendor knowledge and experience, access and reliability, and cost. The team conducted interviews that included questions regarding vendor qualifications and approaches to particular types of cases, and the city awarded the contract to the firm that received the highest combined score.

In some cases, local officials may need to familiarize themselves with a service industry before they can establish appropriate criteria. This can be done before proposals are requested, through conversations with vendors, academics or industry professionals or by hiring a consultant or attending relevant conferences or seminars. For example, when identifying the options that might be available for improving its operation of wastewater treatment facilities, the City of Antigo interviewed a variety of private firms to identify the services that firms provide and determine how those services compared to its existing operations.

Developing a Contract

The contract becomes the primary standard against which vendor performance is measured.

A binding contract formally establishes the relationship between a vendor and the local government and becomes the primary standard against which vendor performance is measured. Although contracts contain many common elements, the experience of local governments indicates that in order to be effective tools for measuring performance, contracts must:

- detail service expectations, including any expectations for the behavior, qualifications, and training of the vendor's employees;
- describe administrative and procedural requirements, including contract duration and compensation, as well as insurance requirements; and
- identify standards for assessing performance and consequences for not meeting expectations, such as penalties and cancellation options.

Further, contract provisions should be discussed with the vendor to ensure a clear understanding of the local government's expectations.

Describing Service Expectations

The best contracts fully specify service expectations.

Undocumented expectations and vague contract provisions can undermine a decision to contract for services by increasing costs or reducing service quality, particularly if the relationship between the vendor and the local government deteriorates. In contrast, explicitly stated expectations can ensure that satisfactory services are provided by private vendors. For example, the City of Fitchburg's contract for solid waste collection services specifies the types of materials to be collected and the days and hours of collection for each material; the items the contractor is not responsible for collecting, such as tires, toxic waste, and flammable liquids; and how revenues from the sale of recyclables will be divided between the city and the vendor. In addition, it includes detailed information on insurance requirements, procedures for arbitration of disputes, and penalties for inadequate service.

Contract specifications must, however, balance the need to specify vendor tasks with the need for sufficient flexibility to adapt to unique circumstances and accommodate changing service requirements and conditions. For example, when Racine County was gradually replacing its in-house building maintenance services with contracted services, it developed contract provisions that specified service fees by square foot and type of service, allowing the county to increase or decrease the level of contracted service

when county janitorial staff terminated employment or took long-term leaves, and when the amount of building space owned by the county changed.

Because the quality of contracted services may be affected by the qualifications of a vendor's employees and by their personal interactions with citizens, several communities have also established minimum qualifications for key vendor staff positions and included training requirements, on-the-job behavioral requirements, and other provisions designed to influence vendor personnel practices in their contracts. For example, in response to citizen complaints with a previous contractor, the City of Fitchburg's current contract for solid waste collection services specifies that workers may not throw, drop, or toss recycling bins more than four feet and that workers should not play music at volumes that may disrupt area residents. The contract also stipulates that work will not begin before 6:00 a.m. and must cease by 7:00 p.m. and includes requirements for cleaning up spilled or broken items on a citizen's property.

Other contracts that include specific provisions for vendor personnel are:

- Waukesha County's contract for specialized transportation for the elderly and disabled, which requires the vendor's drivers to be certified in first aid and adult cardiopulmonary resuscitation, as well as to be trained in awareness of the needs of the elderly and disabled;
- Milwaukee County's contract for security services at its Department of Human Services facilities, which authorizes the county to approve the placement of security staff at county facilities and requires the vendor to provide the county with results of employee background and reference checks, all performance appraisals, and disciplinary actions; and
- contracts for various Racine County nursing home services, which give the county the discretion to prohibit the vendor from using certain employees at its facilities. For example, the county may prohibit the use of employees who have developed a contentious relationship with staff or residents.

Policy objectives and overall service goals identified during the process of deciding whether to contract for services should serve as the basis for detailed contract specifications. Many local governments incorporate the specifications developed for a request for proposals into the contract. However, additional specifications may be needed to clarify administrative expectations and requirements intended to protect the public interest, as well as to incorporate any changes made during final contract negotiations.

Administrative Requirements

The best contracts clarify administrative obligations.

While incorporating administrative requirements into a contract may seem routine, developing contract provisions that clarify the administrative obligations of both the contractor and the local government will reduce the likelihood that inadequate administration will undermine the effective delivery of services. In particular, successful contracts typically specify contract beginning and ending dates; compensation levels and payment information, including the method of calculating payments and their timing; and procedures for the resumption of government service delivery or the delivery of services by another provider, if necessary.

The duration of a contract must balance the government's need for stability and continuity of service with the need for sufficient flexibility to take advantage of other opportunities in the market. Annual contracts have the advantage of allowing local officials to change contractors after a short time, but longer contracts may offer greater certainty regarding service levels and future contract costs, as well as be more attractive to potential vendors. In addition, longer contracts may offer lower annual costs for services that initially require vendors to incur significant capital costs, because those costs can be recovered over a longer period of time. For example, the City of Milton renewed its recycling service contract for a five-year term when it learned the vendor's annual charge, which was based partially on the reimbursement of capital expenses, would be less for a longer-term contract. On the other hand, local governments that enter long-term recycling contracts when the market is depressed may later find themselves contractually obliged to pay a vendor for taking material that others would be willing to purchase.

Contract provisions for compensation must be fully specified.

Contract provisions regarding compensation are most effective when they specify both the method of calculating payments and the conditions the vendor must meet to receive payments, as well as establish clear limits on the amounts to be paid to the vendor. Flat-rate fees are typically used when tasks are constant over the life of the contract, such as is the case with building maintenance services, or when vendor responsibilities include the development and long-term maintenance of capital investments. Alternatively, compensation based on the number of units served, such as constituents, may be the most effective means of controlling costs when service needs or tasks can vary. For example, St. Croix County's contract for drug and alcohol detoxification services pays the vendor a daily rate for each person provided services from among a basic set detailed in the contract, although the work required by the vendor to provide a patient with basic services may vary. The contract also specifies compensation levels for services beyond the basic package, such as medical evaluations or psychological testing.

Vendors hired to operate revenue-generating public services may be compensated based on the percentage of revenues collected. For example, Racine County's contract with a private vendor for management of its public golf courses specifies that 17 percent of gross golf course revenues will go to

Requiring vendors to maintain adequate insurance can help protect local governments from liability.

the county, and the vendor will retain the remaining 83 percent as payment for services. The vendor is expected to operate and maintain the golf courses according to contract specifications. However, regardless of the method of payment established, compensation provisions should not be open-ended, and terms affecting compensation levels should be fully defined.

By requiring a vendor to maintain insurance, a contract can help to protect a local government from legal liability for injuries or harm that may occur to workers, property, vehicles, or other people and things during the course of providing a service. In addition, some local governments have developed contract provisions that hold local officials harmless for injuries, disputes, or grievances, and they have avoided unanticipated costs associated with resumption of government delivery of services by requiring contractors to purchase performance bonds.

The types of insurance coverage that are applicable will vary. For example, the City of Marion's solid waste collection contract requires the private vendor to have general commercial liability insurance covering operations and personal injury, comprehensive auto liability insurance covering commercial vehicles, worker's compensation benefits as required by state law, and an umbrella liability insurance that provides supplemental coverage to any other insurance types. In contrast, unique forms of insurance coverage may be required when contracting for some services. For example, when contracting for data entry services, insurance may be necessary to offer protection if loss or misuse of data by a vendor has significant financial implications for a local government.

Contracts should also include provisions to ensure that critical services will continue to be provided if a contractor fails to meet its obligations, or for other reasons, including any procedures necessary to ensure a smooth transition of equipment, property, or other resources back to government or to another provider. For example, when the Waukesha County Department of Aging contracted for specialized transportation services, it negotiated a clause that required the vendor to lease nine existing vehicles from the county, thus ensuring that the county could reinstate direct service if the vendor's performance was unsatisfactory.

Similarly, the contract negotiated for public works services gave the Village of Saukville the first opportunity to hire back former employees who took positions with the vendor when the contract took effect. As a result, few complications were expected when the village resumed control over public services, as required under a ruling by the Wisconsin Employment Relations Commission. In addition, contract terms that allowed the village to obtain services that were not enumerated in the original agreement, and to do so at a predetermined rate of compensation, eliminated any opportunity for the vendor to capitalize on unanticipated or emergency service needs.

Contracts should include enforcement mechanisms to ensure compliance.

Enforcement Mechanisms

In addition to clearly defined expectations, the contracts negotiated by local governments have also contained enforcement mechanisms to ensure services are provided as expected, including termination clauses, provisions that require access to contract records essential in evaluating performance, or provisions that authorize local officials to assess financial penalties against contractors if services are not performed as required. Enforcement provisions should describe when and how a penalty or other consequence will be applied.

Local officials enhance their ability to ensure compliance, or to change vendors if service is not in compliance with negotiated terms, by specifying the conditions under which a contract may be terminated and establishing termination procedures. For example, the Racine County golf course management contract states that if the contractor fails to remedy a performance problem for a period of 15 days after written notice, the contract is terminated. Provisions that authorize either party to terminate a contract for any reason, with a minimum advance notice to the other party, provide the most leverage for enforcing contracts.

Further, because multiple vendors were willing to provide the data entry services being purchased by Milwaukee County, its service contract stipulated that the contract could be terminated at the end of the fiscal year upon 30 days written notice if funds were not appropriated for contract payments. Provisions that allow for the termination of contracts if funds are not allocated provide newly elected officials or appointed administrators discretion regarding contracts the government entered into in prior years.

The types of penalty provisions used by local governments may include assessments of liquidated damages to be paid by a vendor that fails to meet contract provisions or acts inappropriately, provisions that allow the local government to reduce or withhold payments, or requirements for the vendor to purchase performance bonds of sufficient value to enable the local government to complete a project or deliver services should the contractor fail to do so.

The City of Milton's solid waste collection contract, which permits an equitable deduction to be made from the contract fees for failing to make collections on a timely basis, respond to citizen complaints, or recycle recyclable items, illustrates how penalty provisions can be included in contracts. In addition, some contracts, such as contracts for road and street repairs, may include incentive clauses to motivate the vendor to meet deadlines, as well as provisions that tie payments directly to the delivery of specific tangible products or minimum service thresholds.

Monitoring Service Delivery

A system for continuous monitoring must be developed before a contract is final.

Because the public will continue to hold government officials accountable for services provided by private vendors, best practices require systematic service monitoring to ensure compliance with contract specifications, and a comprehensive and objective evaluation at the end of a contract term to assess whether contracting continues to be the best method of addressing local needs. To ensure the effectiveness of written contract provisions, local officials must have the authority and willingness to enforce contract provisions.

Monitoring Strategies

Monitoring may include inspections, tracking citizen complaints, and reporting.

A comprehensive monitoring system should be developed before a contract is finalized and may include inspections, a review of citizen complaints, customer surveys, contractor reports, and periodic meetings to monitor service quality and ensure vendors comply with service specifications. It is often necessary to use more than one of these tools, which can vary in effectiveness depending on the type of service under contract, as part of a comprehensive monitoring system. Further, monitoring activities should be ongoing throughout the service-delivery period, because service inadequacies may not be recognized for a long time without proper monitoring.

Inspections and observations, which could be scheduled or unannounced, can be useful when performance standards are clearly defined and completed tasks can be easily checked off a list. They are often used to monitor building maintenance and housekeeping services. In addition:

- the Racine County golf course management contract requires that the parties jointly hire a turf consultant to evaluate and report on the condition of each golf course at the beginning and end of each golf season and at the termination of the lease, thereby allowing the county to be aware of any deterioration in the condition of its courses; and
- Milwaukee County's data entry services contract allows the county, at its option, to perform quality inspections to ensure the vendor's work meets the criteria for accuracy established in the contract.

Data collection needed for monitoring should be specified in contracts.

Some monitoring strategies may require the development of contract provisions. For example, to collect and review citizen opinions, contracts may require that vendors formally document and report any complaints or other information received from citizens. Such a monitoring strategy has allowed the City of Fitchburg to isolate complaints according to type and service route and identify patterns, enabling it to address problems with its contract for solid

waste collection services in a timely fashion. Other communities have monitored financial information or required contractors to report on work completed to date, service levels, problems encountered, and improvements made by the contractor. For example:

- the City of Brookfield requires the vendor that collects fees for emergency medical services to file monthly reports on collection activity, including the number of collections outstanding from individuals and insurance companies, how long claims have been outstanding, and collection percentages to date; and
- Oconto County requires the contractor that operates a county park and campground to submit monthly financial reports for all park revenues. The contractor is paid a percentage of gross receipts, as required by the service contract, after the reports are audited and deposits have been received.

Finally, regularly scheduled meetings can provide opportunities for local government officials and contractors to communicate routine problems with service quality and to develop solutions to problems that were not identified during the contract development period. For example, the Village of Saukville's contract for public works services, which was terminated in October 1996, had required monthly meetings of the project management committee, which consisted of government and vendor representatives, both to keep village officials informed about the contractor's activities and to involve local officials in assessing performance, developing solutions to identified problems, and planning future work.

Oversight Responsibility

Oversight responsibility should be formally identified and assigned.

The best monitoring systems formally identify and assign oversight responsibility, allocate resources necessary to facilitate adequate oversight, and invest responsible persons with the authority needed to enforce contract provisions. Those responsible for oversight must have the expertise necessary to assess contract performance and to identify and mediate problems.

Like those who evaluate potential vendors, those responsible for overseeing contracted services need to be familiar with the community's service needs, as well as have a good understanding of the contract and any related technical issues. Responsibility for oversight may be formally identified through explicit statements in position descriptions, references in relevant policy and procedure manuals, budget provisions, or the adoption of ordinances. In addition, such provisions may also establish the authority of those charged with oversight to take action on behalf of the local government and provide the resources necessary to carry out oversight responsibilities.

Although assignment of responsibility for monitoring service quality is likely to vary depending on the size and resources of the local government, those charged with oversight should either be experienced in the service area or have access to other objective sources of expert information on the service being provided. For example, in some counties, responsibility for monitoring the level and quality of service to ensure that the vendor is in compliance with stated service specifications is assigned to the county's purchasing staff. For counties and cities without a separate procurement and purchasing department, the responsibility for monitoring service may be assigned to the government's chief administrator or a special committee. The City of Kenosha established a special committee, consisting of managers of the departments that use data services most frequently, to monitor the city computer services contract. The committee communicates problems with existing services to the vendor, approves purchases made by the vendor on behalf of the city, and makes long-range plans regarding computer needs.

Planning for the Future

Privatization decisions should be re-evaluated periodically.

The delivery of public services can be affected by various conditions beyond the control of local governments, including market changes, advances in technology, changes in state and federal laws, and shifts in demands for public services. Best practices require that the decision to privatize be re-evaluated periodically.

The effectiveness of contracting decisions should be evaluated formally at the end of each contract to determine whether the overall objectives of service provision were met and whether contracting continues to be the most cost-effective means of delivering services. Because rapid changes in a community's population may affect the need for services and the efficiency of government service delivery relative to private operations, the range of service delivery options available and the cost-effectiveness of those options may change over time. As a result, new service delivery systems may become a more appropriate means of meeting local needs.

In Wisconsin and other states, some local employees compete with the private sector for public service contracts.

Managed competition, which has been gaining interest nationally, originated in the late 1970s when both private vendors and government employees in Phoenix, Arizona competed to provide solid waste collection services in selected districts throughout the city. The city's public works department initially lost bids to provide service in selected districts but continued to be responsible for solid waste collection in other areas of the city. Over time, the public works department increased its productivity and won back all contracts it had previously lost to private firms. Phoenix has continued to use a competitive proposal process in 13 service areas, including ambulance service, landscaping, and street repair, and government employees have been awarded service contracts about 40 percent of the time.

Several other cities have also used the managed competition approach to provide services, including:

- Indianapolis, Indiana, which has allowed city departments and private vendors to submit proposals on 50 services since 1992, including filling potholes, fire engine cleaning, and vehicle maintenance;
- Charlotte, North Carolina, which selected a private vendor rather than city employees' proposal to provide solid waste collection in one-fourth of the city, but continued to use public employees for this service elsewhere in the city to ensure a capacity to deliver services and compete for future contracts; and
- Philadelphia, Pennsylvania, which decided not to accept proposals from private firms after its own employees submitted a proposal that would reduce the cost of its sewage treatment operations by 33 percent.

Local governments in Wisconsin have also taken steps to create competition between government departments and private vendors. For example, the Waukesha County Department of Facilities Management taught its current housekeeping staff how to develop a proposal to provide cleaning services for two new buildings, because management believed that competition with private vendors would compel its staff to provide higher-quality service at a reduced cost.

Proponents of managed competition believe it results in more efficient and effective government services for two reasons. First, they believe competition allows government employees, who understand the service being provided, an opportunity to develop work routines that increase productivity. Second, they believe managed competition establishes a benchmark against which the cost of government-provided services can be continuously compared to market costs.

Critics of managed competition believe that improvements in service delivery can be achieved by removing rules and regulations that govern public employees, rather than turning to a competitive process. They argue that political leaders overstate potential savings by not considering a decrease in the quality of service and the costs of selecting a private vendor, and that governments fail to provide adequate oversight once private firms are awarded a service contract.

These competing viewpoints emphasize the importance of ensuring that decisions to contract have been fully considered, particularly because public services can typically be delivered in a variety of ways.

APPENDIX I

Best Practices Local Government Advisory Council

Betty Balian, Town Board Chair
Town of Lebanon (Dodge County)

Daniel Elsass, Governmental Affairs Unit
University of Wisconsin-Madison, Division of Continuing Studies
(Appointed as City Administrator, City of Baraboo)

Steve Fredericks, County Administrator
Marinette County

Anne Kinney, Executive Director
Milwaukee Metropolitan Sewerage District
(Appointed as Director of Administration, City of Milwaukee)

John Krizek, County Administrator
St. Croix County

APPENDIX II

Legislative Audit Bureau Privatizing Government Services Practices Survey

INSTRUCTIONS: In completing this survey you may attach a separate sheet for responses. If you have any questions, feel free to contact Chris Black at (608) 267-0412. Please return the completed survey in the postage-paid envelope by March 22, 1996.

Person Completing Survey _____

Position _____

Telephone Number _____

1. Jurisdiction (county, city, village, or town) _____

2. Population _____

3. Amount of annual operating budget \$ _____

4. What services, if any, were previously provided by government employees within the last seven years but are now provided through a contract with a private sector vendor?

- ___ Building inspection
- ___ Building maintenance
- ___ Collections (delinquent debts)
- ___ Emergency medical services
- ___ Fleet maintenance/services
- ___ Solid waste collection
- ___ Transportation (bus, taxi, etc.)
- ___ Street maintenance and repair
- ___ Recycling
- ___ Wastewater treatment
- ___ Nursing Home or Hospital Management
- ___ Other _____
- ___ Other _____

5. Please list each privatized service and indicate whether the jurisdiction's cost for providing the service was identified before privatization was considered?

				<u>Estimated Amount</u>
A. Service	_____	yes ____	no ____	\$ _____
B. Service	_____	yes ____	no ____	\$ _____
C. Service	_____	yes ____	no ____	\$ _____
D. Service	_____	yes ____	no ____	\$ _____

6. For each service privatized, did the jurisdiction receive bids from more than two private vendors?

A. Service	_____	yes ____	no ____
B. Service	_____	yes ____	no ____
C. Service	_____	yes ____	no ____
D. Service	_____	yes ____	no ____

7. For each service privatized, does the jurisdiction have a continuing legal liability related to the service?

A. Service	_____	yes ____	no ____
B. Service	_____	yes ____	no ____
C. Service	_____	yes ____	no ____
D. Service	_____	yes ____	no ____

8. For each service privatized, what is the duration of the contract with the private vendor?

A. Service	_____	number of years	_____
B. Service	_____	number of years	_____
C. Service	_____	number of years	_____
D. Service	_____	number of years	_____

9. For each service privatized, did the jurisdiction estimate the projected annual savings resulting from privatization?

				<u>Projected Savings</u>
A. Service	_____	yes ____	no ____	\$ _____
B. Service	_____	yes ____	no ____	\$ _____
C. Service	_____	yes ____	no ____	\$ _____
D. Service	_____	yes ____	no ____	\$ _____

10. For each service privatized, did the amount of savings realized during 1995 from privatization meet or exceed projections?

A. Service	_____	yes ____	no ____
B. Service	_____	yes ____	no ____
C. Service	_____	yes ____	no ____
D. Service	_____	yes ____	no ____

11. What is your opinion of the quality of each privatized service?

A. Service	_____	improved	___	same	___	declined	___
B. Service	_____	improved	___	same	___	declined	___
C. Service	_____	improved	___	same	___	declined	___
D. Service	_____	improved	___	same	___	declined	___

12. What methods are in place to monitor the quality of services provided by a private vendor?

13. Is there a written contract with each provider?

14. Are there any incentive or penalty clauses for provider performance?

15. In your opinion, what is the biggest challenge in having a government service provided through a contract with a private vendor?

16. In your opinion, what are the more innovative and effective privatization efforts used in your jurisdiction or other communities you know of?

APPENDIX III

Survey Results

A total of 996 counties and municipalities were asked to respond to the survey reproduced in Appendix II, regarding their efforts to contract with private vendors during the past seven years. As shown in Table 1, 326 local governments responded to the survey, for an overall survey response rate of 32.7 percent. Response rates for individual levels of local government range from a low of 27.6 percent for towns to 63.9 percent for counties. The substantially higher response rate for counties reflects attempts to increase the number of responses by sending follow-up letters reminding county officials to complete the survey.

Table 1

Survey Response Rates

<u>Unit of Government</u>	<u>Number Surveyed</u>	<u>Number of Responses</u>	<u>Response Rate</u>
County	72	46	63.9%
City	189	66	34.9
Village	394	120	30.5
Town*	<u>341</u>	<u>94</u>	27.6
Total	996	326	32.7

* Includes all towns with populations of 2,500 or greater and a sample of towns with populations under 2,500.

As shown in Table 2, local governments reported 341 separate contracts with private vendors; 59 different service areas were included. While service contracts for solid waste collection and recycling services were reported most frequently, the services for which local governments contract may also reflect differences across local governments. For example, the fact that no counties reported contracting for solid waste collection services is consistent with the fact that counties have not traditionally been responsible for providing solid waste collection.

Table 2

Frequency of Service Contracts by Level of Government
(in order of frequency)

<u>Service Area</u>	<u>Counties</u>	<u>Cities</u>	<u>Villages</u>	<u>Towns</u>	<u>Total</u>
Solid Waste Collection	0	17	38	18	73
Recycling	1	19	21	15	56
Building Maintenance	14	9	8	1	32
Building Inspection	0	16	8	6	30
Road and Street Repair	7	6	3	10	26
Collections	4	8	7	3	22
Emergency Medical	1	4	2	5	12
Fleet Maintenance	2	6	1	2	11
Road and Street Maintenance*	0	5	3	2	10
Parks and Recreational Facilities**	4	3	2	0	9
Health and Human Services***	9	0	0	0	9
Program Support****	5	3	0	0	8
Grounds Maintenance	1	3	2	2	8
Wastewater Treatment	0	2	4	1	7
Property Assessment	0	3	2	0	5
Water Distribution	0	1	2	1	4
Specialized Transportation	1	2	0	0	3
Building and Transit Security	2	1	0	0	3
Jail Food Service	2	0	0	0	2
Other	<u>7</u>	<u>3</u>	<u>0</u>	<u>1</u>	<u>11</u>
Total	60	111	103	67	341

* Includes snow plowing, street sweeping, and street light and traffic light repair.

** Includes management and operation of golf courses, parks, swimming facilities, and wildlife areas.

*** Includes alcohol and drug treatment services, health clinic operation, and medical and therapeutic services.

**** Includes printing services, mass mailing and messenger services, payroll process, and information management services.

Tables 3 through 6 show the contracting activities reported by individual counties or municipalities. However, because the survey was designed to identify recent contracting efforts, the reported contracting activities do not reflect all of the service contracts for counties and municipalities.

Table 3

Contracting Activity by Counties

	Activity Therapy	Adult Daycare	AODA Services	Asphalt Production	Building Security	Collections	Concessions	Data Entry	Deed Searches	Emergency Medical	Employe Services Program	Engineering	Environmental Health	Fleet Maintenance	Golf Course Management	Gravel Crushing	Grounds Maintenance	Halfway House	Health Clinic	Highway Maintenance	Highway Sign Maintenance	Jail Food Service	Janitorial Services	Laundry Service	Management Information *	Parks Management	Payroll Processing	Pharmacy	Physician Service	Printing	Recycling	Risk Management	Social Service	Specialized Transportation	Transit Security	Worker's Compensation
ADAMS																																				
CHIPPewa						•																														
COLUMBIA						•																•														
DODGE			•																																	
DOUGLAS										•																										
EAU CLAIRE						•																										•				
IOWA																																				
JEFFERSON												•											•													
LINCOLN																							•													
MARINETTE						•																														
MILWAUKEE											•																									
OCONTO																																				
PIERCE																																				
RACINE	•											•																								
ROCK				•																																
RUSK																																				
ST. CROIX			•																																	
WALWORTH																																				
WASHINGTON																																				
WAUKESHA		•																																		
WAUPACA																																				
WAUSHARA																																				
WOOD																																				

*Systems maintenance and repair

Table 4

Contracting Activity by Cities

	Animal Warden	Bridge Inspection	Building Inspection	Building Security	Collections	Emergency Medical	Fleet Maintenance	Forestry Management	Grounds Maintenance	Janitorial Services	Library	Management Information*	Mass Mailings	Messenger Service	Meter Maintenance	Municipal Court Prosecution	Pavement Marking	Property Assessment	Public Works Inspection	Recycling	Solid Waste Collection	Specialized Transportation	Street Crack Filling	Street Lighting Repair	Street Repair	Street Sweeping	Swimming Facility	Wastewater Treatment	Water Distribution
	ANTIGO									●															●			●	
	BARABOO									●								●										●	
	BERLIN				●	●				●																			
	BLACK RIVER FALLS		●																										
	BOSCOBEL									●											●	●							
	BRODHEAD																			●	●								
	BROOKFIELD				●						●		●				●												
	BUFFALO								●																				
	CORNELL						●														●				●				
	DE PERE		●		●	●	●			●																			
	EAGLE RIVER																				●								
	EAU CLAIRE				●															●	●								
	ELKHORN		●																										
	FITCHBURG																			●	●								
	GREEN LAKE		●																	●	●	●							
	HORICON																												
	JANESVILLE	●			●		●																		●				
	JUNEAU						●																						
	KENOSHA											●																	
	LADYSMITH																			●									
	LAKE GENEVA																				●								

*Systems maintenance and repair

Contracting Activity by Cities, continued

	Animal Warden	Bridge Inspection	Building Inspection	Building Security	Collections	Emergency Medical	Fleet Maintenance	Forestry Management	Grounds Maintenance	Janitorial Services	Library	Management Information*	Mass Mailings	Messenger Service	Meter Maintenance	Municipal Court Prosecution	Pavement Marking	Property Assessment	Public Works Inspection	Recycling	Solid Waste Collection	Specialized Transportation	Street Crack Filling	Street Lighting Repair	Street Repair	Street Sweeping	Swimming Facility	Wastewater Treatment	Water Distribution
					●															●					●				
LAKE MILLS							●														●								
MARION																													
MARKESAN			●																		●								
MEDFORD			●																		●								
MENOMONIE								●										●			●								
MEQUON			●		●														●		●								
MILTON																				●	●								
MONTREAL			●			●															●								
NEENAH										●																			
NEW LISBON			●																							●			
NIAGARA			●																		●				●				
OCONTO FALLS			●		●														●										
OSSEO			●																										
RHINELANDER	●														●														
SHEBOYGAN				●		●				●												●					●		
SPOONER						●																							
STURGEON BAY																													
WATERLOO			●																										
WAUWATOSA																					●								
WISCONSIN RAPIDS							●			●											●					●			

*Systems maintenance and repair

Table 5

Contracting Activity by Villages

	Building Inspection	Collections	Emergency Medical	Fire Inspection	Fleet Maintenance	Forestry Management	Grounds Maintenance	Janitorial Services	Property Assessment	Recycling	Sewer Cleaning	Snow Removal	Solid Waste Collection	Street Repair	Street Sweeping	Swimming Facility	Wastewater Treatment	Water Distribution
ALLOUEZ		●									●							
BLUE RIVER										●			●					
BROOKLYN							●											
BRUCE													●					
BUTTERNUT										●								
CAMP DOUGLAS												●			●			
COLOMA													●					
CURTISS													●					
DANE	●																	
DORCHESTER													●					
EASTMAN													●					
ELM GROVE								●										
EMBARRASS													●					
EPHRAIM													●					
ETTRICK										●			●					
FRIESLAND													●					
GRAFTON		●			●			●					●					
GRANTSBURG													●					
GRATIOT			●							●								
GREENDALE		●							●	●								
HALES CORNERS					●			●										
HARTLAND		●						●	●	●								
HATLEY										●			●					
HIGHLAND													●					
HOLMEN								●								●		
HOWARDS GROVE																	●	
KEWASKUM	●							●		●			●					
LIME RIDGE													●					
LINDEN													●				●	
LOGANVILLE													●					
LONE ROCK										●			●					
MERTON												●						
MONTFORT													●					
MT. HOPE										●			●					
MT. HOREB										●			●					
OREGON								●										
OSCEOLA							●											
OXFORD													●					
PLEASANT PRAIRIE		●						●					●					
POPLAR													●					

Contracting Activity by Villages, continued

	Building Inspection	Collections	Emergency Medical	Fire Inspection	Fleet Maintenance	Forestry Management	Grounds Maintenance	Janitorial Services	Property Assessment	Recycling	Sewer Cleaning	Snow Removal	Solid Waste Collection	Street Repair	Street Sweeping	Swimming Facility	Wastewater Treatment	Water Distribution
REDGRANITE													●					
REESEVILLE													●					
RIB LAKE													●					
RIDGELAND			●										●					
ROSENDALE													●	●				
SAUKVILLE				●										●			●	●
SPENCER													●	●			●	●
STRATFORD		●								●								
STURTEVANT	●									●								
SULLIVAN	●													●				
SUPERIOR										●			●					
THIENSVILLE	●	●								●			●					
TIGERTON										●			●					
UNITY										●			●					
WALES	●																	
WARRENS										●			●					
WEST BARABOO	●																	
WESTFIELD													●					

Table 6

Contracting Activity by Towns

	Building Inspection	Collections	Emergency Medical	Fleet Maintenance	Grounds Maintenance	Janitorial Services	Recycling	Road and Street Repair	Snow Removal	Solid Waste Collection	Wastewater Treatment	Water Distribution
AROURA							●			●		
BELLE PLAINE								●		●		
CALEDONIA		●										
CLEARFIELD							●					
CONOVER			●							●		
EAST TROY	●									●		
EATON			●									
ELCHO										●		
FARMINGTON							●					
GARDEN VALLEY										●		
HARRISON								●				
HIXON							●			●		
IXONIA	●											
JACKSON								●				
LAWRENCE							●					
LYNDON									●	●		
LYONS	●	●					●					
MAINE	●		●				●			●		
MINERAL POINT								●				
NEENAH							●					
NEWTON					●							
NORTHFIELD			●									
NORWAY		●								●		
OREGON					●			●				
PESHTIGO	●			●			●	●				
PLUM LAKE								●	●			
ROYALTON						●		●				
SALEM							●			●	●	
SHEBOYGAN												●
STOCKTON										●		
SUGAR CREEK	●						●	●		●		
SWISS			●				●			●		
TAYCHEEDAH							●			●		
TREGO										●		
TRENTON							●					
WEBSTER							●	●		●		
WILSON				●								
WYALUSING										●		

