Outsourcing
Methods & Case Studies
City of Colorado Springs
Sustainable Funding Committee

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OUTSOURCING

Overview .................................................................................................................................................. 3
Types of Outsourcing ............................................................................................................................... 3
When to Outsource .................................................................................................................................. 4
When not to Outsource .............................................................................................................................. 5
Outsourcing Guidelines ............................................................................................................................. 6
Case Studies ............................................................................................................................................... 11
Managed Competition .............................................................................................................................. 15
Public-Private Partnerships ......................................................................................................................... 17
Outsourcing Advisory Boards ..................................................................................................................... 18
Outsourcing in Colorado Springs ............................................................................................................... 19
Conclusion .................................................................................................................................................. 20
OUTSOURCING

Overview

Outsourcing is a useful tool employed by cities across the country to cut costs, improve quality of service, and raise revenue. Approximately 80 percent of all U.S. cities outsource some services\(^1\). It also can help free up limited city resources for more critical public goals such as improving overall quality of life, maintaining public safety, and sustaining economic growth.

Although outsourcing has in recent years been a subject of controversy, engendering the opposition of municipal and private sector labor unions alike, it has the potential to depoliticize certain aspects of service delivery, as fixed contracts allow for better budget control and reduce the need for controversial service cuts. In addition, it reduces the need for direct personnel management by shifting these responsibilities to the contractor.

Outsourcing is not simply limited to private vendors; services can be outsourced to other public entities as well. When correctly applied and executed, it can maximize performance, increase operational efficiency, and better deploy resources to meet critical goals. However it should only be applied carefully and selectively to those areas where significant cost and efficiency gains can be attained.

Types of Outsourcing

Outsourcing can occur in many forms, as listed below:

- **Contracting out** typically involves a competitive bidding process in which RFPs (Requests for Proposals) are disseminated to eligible vendors. Some city and state governments require contractor registration prior to bidding while others independently select potential contractors based on experience and reputation. Contractor proposals are then evaluated and a decision is made based on either a cost or “best value” basis. Contractor performance is then monitored and managed in view of predetermined service goals.

- **Public-Private Partnerships** are cooperative arrangements between governments and private organizations to jointly fund or operate a particular program, project, or service. Public-private partnerships typically involve concerned local stakeholders helping to provide a program, project, or service of a particular value to a local community or neighborhood. Such arrangements benefit both the government and the private organizations involved by

undertaking a valuable service, project, or program that could not be carried out independently by either entity.

- **Volunteers** or volunteer associations are often called on to provide public services highly valued by community members for no cost to the city. Many cities use volunteers for park maintenance, recreational programs, and neighborhood watch activities among other programs.

- **Load shedding** involves government relinquishing the responsibility for providing services or operating a program. Most often, this is done with the understanding that another entity, public or private, will buy the public assets associated with the service or program and offer these itself\(^2\). An example would be handing off of a city museum to a private museum foundation or control of a city park to a local parks conservancy.

- **Franchising** involves the licensing of private service providers to exclusively provide public services in a particular area. Private vendors then charge city residents fees for the services they provide. Although rarely used by city governments, franchising can sometimes be a more efficient way for larger cities to organize residential waste collection and hauling.

- **Vouchers** involve government payments to third parties for goods or services provided to residents. Vouchers are often used to enhance the competition and availability of a service to residents without direct government service provision\(^3\). While commonly used by school districts, housing, and social service agencies, vouchers can also be used to provide municipal employee benefits.

### When to Outsource

Outsourcing has been used by cities to solve various problems ranging from a lack of internal expertise to a need for significant cost reductions. Many cities have found that equipment, maintenance, or labor costs for providing a service have risen faster than budgeted revenues. In these cases, some have found that the economies of scale and resulting efficiencies enjoyed by private vendors can be brought to bear on behalf of city agencies, reducing the cost of providing services and shielding cities from labor and equipment cost increases over the length of the contract.

Other cities have found that outsourcing allows them to improve quality, by utilizing a contractor with more knowledge and expertise in providing a particular service. City


agencies faced with providing a new service can lack the skills, experience, and expertise necessary to produce quality results, making a contractor a more practical option. Moreover, a contractor’s profit motive often leads it to offer the best product at the lowest price in order to obtain future business. Shifting responsibility for service delivery to a contractor can also allow city agencies to focus more on achieving their core missions rather than spending time on administrative tasks.

In general, private contractors operate under fewer bureaucratic and regulatory constraints than public entities. They are less likely to be bound by inflexible collective bargaining agreements and civil service regulations, and therefore have more flexibility in adjusting staffing levels. In addition, they are less restricted by strict procurement regulations and operational procedures that can slow down service delivery and inhibit the development of more effective solutions. This yields greater potential for increased innovation and flexibility in improving service delivery.

Outsourcing also enables cities to increase accountability for service delivery. It is often difficult to terminate city employees for poor performance. However, contracting allows cities to hold the service provider accountable for service delivery, through the use of contract renewal, performance bonds, and lateness penalties. Rebidding a contract on a regular basis enables a city to compare performance and hold existing contractors accountable by regularly subjecting them to competition. In addition, performance bonds and lateness penalties protect cities from the effects of poor performance; in contrast, these costs are often not recovered under in-house operation.

**When not to Outsource**

Outsourcing is not a universal panacea for all cost and performance problems. In many cases, it can be an inappropriate option for certain city services and carries with it a great deal of risk, which, unmitigated, can produce catastrophic results. There are several instances in which the risk of contractor failure will outweigh the potential benefits from outsourcing.

Cities should never outsource functions that are inherently governmental, such as law enforcement, policy making, and public safety. These functions are essential to the well being and quality of life of citizens and therefore should never be subjected to the risk of contractor failure. In addition, maintaining city control over these functions is a critical component of maintaining democratic control and accountability over city services. For this reason, it is often best to first identify and evaluate services that are the best candidates for outsourcing, and exclude those for which these risks are unacceptable.

In general, outsourcing should never be considered for areas where there is not sufficient private sector expertise and experience. Often, in-house staff have years of valuable experience and know-how that cannot be replicated in the private sector.
Losing this expertise when engaging a contractor can be very regretful in the event the contractor fails to meet minimum performance standards. Contracting should be used to select only experienced, well-qualified vendors with a proven methodology—when they are available.

In addition, outsourcing should not be used for new programs and initiatives with undefined goals and expectations. This precludes the ability to hold contractors accountable for results and creates an enormous potential for waste, fraud, and abuse. The fixed nature of contracts also locks the city into financial obligations that exist even after new programs are redesigned, scaled back, or eliminated.

Moreover, when there is a significant risk of city administrative upheaval, outsourcing is not an advisable option. Sometimes high turnover among contract negotiation, supplier management, and contract enforcement staff can obviate the development of institutional knowledge and memory that ensures effective contractor monitoring and management. Frequent changes in contract management staff and policies sometimes lead governments to overlook critical cost overruns, quality management, and performance problems.

Outsourcing a function carries with the loss of certain advantages derived from in-house work. For example, outsourcing often leads to a loss of control over personnel, work practices, and quality control. The consequences of this loss can vary depending on the type of service outsourced. In addition it can entail a substantial commitment of administration and oversight, which will vary with the risk of contractor failure and the potential consequences of that failure. Administration requires extra time and effort to be spent drafting RFP’s, soliciting bids, writing specifications, and setting performance standards.

Disputes with contractors can also sometimes saddle the city with the unexpected liability of contesting civil litigation. In addition, since contractors are not accountable to the public and have only the profit motive as a driving force, they may be less likely to be responsible with the public assets and taxpayer dollars they receive. Furthermore, there is the genuine risk of contractor bankruptcy or failure that can put the provision of critical city services in jeopardy without adequate stop-gap measures in place. With these considerations in mind, there are several steps that cities can take to minimize the effect of these disadvantages and protect against these risks.

**Outsourcing Guidelines**

In advance of any outsourcing consideration, certain issues should be taken into account before deciding whether contracting will work in a particular service area.
**In-house versus Outsourced Service Delivery**

An outsourcing decision should be based on the fact that the service cannot be performed more efficiently in-house. In order to determine this, a city should fully estimate the internal cost-of-service and weigh this against the cost of engaging a contractor.

Often, public agencies find that it is more cost-effective to reorganize or improve operations than turn to a third-party contractor. The potential costs and benefits of an internal improvement initiative should be considered before making a final outsourcing decision.

When estimating the in-house cost of service, a city should include some measure of the costs related to managing employee payroll, pension and health benefits, workmen’s compensation claims, and other personnel management functions to accurately compare with indirect costs borne by contractors, not immediately apparent in the contractor quote.

In addition, when weighing the costs and benefits of in-house versus contracted service delivery, it is essential to incorporate any additional contract administration costs into a contracting estimate. Adequate contractor monitoring and management can often incur significant costs that should be fully incorporated into the outsourcing estimate.

Procurement regulations and existing contractual arrangements can be significant impediments to the advancement of an outsourcing initiative. It is critical that legal limitations and requirements be considered when evaluating or implementing an outsourcing option. Additionally, the political viability of any large scale outsourcing of services should also be considered. Outsourcing initiatives have the potential to decrease employee morale and often incur strong opposition from municipal employee unions. These political factors should always be planned for and considered in advance of an initiative, with sufficient attention paid to employee and union concerns.

**Deciding on a Contractor**

When initiating the RFP process, it is best to send out the RFP to a wide array of potential vendors, to prevent a monopoly bid and increase the number of viable options before the city. Obtaining a sufficient number of proposals is critical to realizing the benefits of contractor competition. However, the RFP submittal should also be restricted to vendors reasonably experienced and qualified to provide the service.

When soliciting bids, checking the track records and past clients of contractors can be a helpful way to restrict bids to qualified, higher quality contractors. Doing preliminary
research on a contractor can weed out questionable contractors and simplify the decision-making process in the final evaluation.

In addition, fully recognizing the city’s strategic interests and performance goals can be key in selecting the right contractor. Selecting a contractor who fully meets and aligns with city goals and expectations is critical to maximizing performance and preventing future problems and delays.

Furthermore, the lowest bid contractor is not always the best contractor. Low bid contractors are often inexperienced, underestimate the cost of service, and sometimes pass on significant additional costs in the form of cost overruns, delays, and poor quality work needing remediation. In addition to cost, including quality ranking factors that identify and incorporate vendors’ strengths and weaknesses in the final evaluation can mitigate this risk.

**Post Selection**

When outsourcing a particular program or service, cities often have to reduce their workforce associated with that area. The prospect of mass layoffs or forced retirements can be very controversial and endanger the success an outsourcing initiative. Many cities have dealt with this by adding a provision to the contract requiring that existing city employees be given first preference for hiring by the private vendor. Others have sought to reduce their existing workforce through attrition, hiring freezes, early retirement incentives, or employee retraining. In implementing an outsourcing initiative, a city should be mindful of the effects it will have on current city employees and plan accordingly.

When outsourcing a service area, it is important to retain key managerial functions in-house. Budget control, business planning, policy making, supplier management, and performance management should always be under the control of city staff, in order to hold contractors accountable and align program activities with established city goals.

With any contracting initiative, there is the real risk of change orders and cost overruns that can unexpectedly increase the cost of the contract. To avoid this, the city should negotiate contracts that do not hold the city liable for significant cost overruns and minimize or otherwise restrict the number of allowable change orders. Sometimes, loose contract provisions enable contractors to bill for additional personnel, supply, or material costs not included in the original bid that significantly increase the overall cost to the city. Negotiated contracts should have fixed cost provisions that protect the city from such an event, as well as fully specify the work to be performed. In addition, the city should consider negotiating performance-based contracts that withhold payments

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to vendors until specified performance goals and metrics are met. Adopting this type of contract can further protect the city against cost, schedule, and performance risk.

Sometimes, contractors pull out of contracts when they find they are ill-equipped to perform their assigned tasks. In these events, cities are often left with little or no remaining internal capacity to step in and provide the service. Retaining some staff in-house protects against this, while allowing for in-house professional advice to be provided to the contractor when needed. In addition, requiring a performance bond from contractors can also protect a city financially in the event of an abrupt pull-out.

A city should fully gauge and plan for unanticipated liabilities and risks associated with a contract. As with any contract, lax standards, corruption, graft, and failure to meet performance goals and deadlines are distinct possibilities. To mitigate these effects, cities should fully plan for these contingencies as part of an overall risk management strategy for each contract.

It is also important that a city actively manage its relationship with contractors. Communication of goals and expectations to contractors is critically important to successful outcomes. Lapses in communication can easily lead to unnecessary disputes in which the contractor fails to meet the goals, standards, and expectations of the city.

Also critical to any successful outsourcing is adequate contract oversight and contractor monitoring to foster contractor accountability and implement quality management. Lax oversight can lead to major problems later in a project or program’s life. Making sure that contractors live up to the terms of the contract and deliver the specified products and services on time is critical to ensuring a successful outcome. However, it is also important to strike a balance between tight regulation and providing the flexibility to get the job done more efficiently and at a lower cost.

The following examples show common problems governments have faced when they have undertaken poorly executed and badly applied outsourcing initiatives:

- **Washington D.C** negotiated a 7 ½ year contract with Affiliated Computer Services to install and maintain 16,500 parking meters in 1999. A recent report by the D.C Auditor revealed that from 1999 to 2005, almost 7,000 tickets were issued to vehicles parked at broken meters and the number of citizen complaints jumped from 3,652 to 89,840⁵. The report found that ACS suffered from a wide array of problems and inefficiencies that went unnoticed by DCDOT, the agency responsible for monitoring the contractor. ACS consistently failed to repair parking meters within the 72-hour period specified in the privatization contract, yet DCDOT remained disengaged from the quality of ACS’ performance. During

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the 7 ½ year period, ACS billed the District $644,952 in bagged meter fees, which under the contract it was not entitled to, and received payment without any formal investigation. In the end, the Auditor estimated that if parking meter management had been retained in-house for the seven year period, it would have cost the city $8.8 million less than the contract with ACS⁶.

- **Denver** began a contract with Redflex Traffic Systems to administer its new red light traffic photo enforcement program in 2008. However, a few months into the contract, Redflex had failed to deliver key data and statistics required in the contract as well as provide support staff, maintenance reports, equipment certifications, and access to live video and still images. Under the contract, Redflex must reimburse the city $25 each time it fails to photograph all but 2 percent of detected violations. Yet the data to make this determination was never delivered to the city, making enforcement of this provision impossible to determine. At the same time, the Police Department, responsible for enforcing the contract, failed to demand any of the required reports and data until a newspaper investigation of the contract began in December 2007. The lack of data from Redflex has prevented Denver from knowing whether the red-light cameras actually deter traffic violations, the chief goal of the program⁷.

- **San Diego** engaged Grant Thornton, LLP to build the framework for its voter-approved managed competition program in 2007. The $658,515 contract, negotiated by the Mayor’s Office, was later deemed to be illegal by the City Attorney’s Office, as it was not approved by City Council as mandated by the city code⁸. Council members have in turn been angered by city staff’s inability to tell them what products and series the city has yet received from Grant Thornton or what the City would receive in the future. Almost two years into the contract, Grant Thornton had only managed to deliver a managed competition guide and identified a few city departments as candidates for managed competition, while the Mayor’s Office twice missed self-imposed deadlines to advertise for bids⁹.

- **Texas** negotiated a seven-year $863 million contract with IBM to transfer state records to a centralized computer system. Severe problems soon developed under the contract, including the temporary loss of half of 8 months worth of Medicaid fraud records and a failure to meet server backup timeliness targets,

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⁶ Ibid.
for which IBM was fined $900,000. In addition, the Governor’s Office found that IBM project overseers failed to implement the necessary checks and balances to ensure the project’s security. As a result, the Governor recently suspended the transfer of state records to IBM\(^{10}\).

**Case Studies**

Several cities have had successful experiences with outsourcing in a variety of program areas:

**Internal City Administration Services**

- **Atlanta, GA** outsources its records management functions. With the projected sale of its City Hall East building in summer 2009, Atlanta lost its primary records storage facility. In response, the City negotiated a $150,000, 10 year contract with Iron Mountain, Inc to store City records in a secure facility. A Records Management Administrative Committee composed of representatives from various City departments was created to oversee the contract. As a result, Atlanta eliminated the need for its Records Management Division, while preserving City oversight of records management activities.

- **Richmond, VA** has in recent months moved to privatize its municipal fleet operation. The initial request for information called for mandatory performance standards that would tie full payment to meeting time and quality performance benchmarks. Under a contracting agreement, the City would retain a fleet operations manager and staff to oversee and support the private operation while the contractor would be responsible for preventive maintenance, minor and major repairs, body repairs, tire inspection and replacement, and overall management of the operation. A May 2007 report by the City Auditor estimates a potential savings of $2.6 million from contracting out these operations\(^{11}\). In addition, the cities of Dallas, TX, Huntingdon Beach, CA, and Montgomery County, MD have each successfully outsourced select fleet management functions.

- **Sandy Springs, GA** completely outsources IT services for City network systems. Under a five year, $1 million contract that began in 2006, CH2M HILL provides personnel, applications, security, disaster recovery and remote infrastructure

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support for the City’s IT needs.\footnote{Brad Jones. “CH2M HILL Managed Services awarded $1 million contract to provide IT services for the City of Sandy Springs, Georgia.” CH2M HILL. June 2, 2006. http://www.ch2m.net/Default.aspx?tabid=150.} Outsourcing IT functions as part of an overall full-scale outsourcing of non-public safety functions enables Sandy Springs to keep service costs low, maintain a lower tax burden, and preserve adequate service quality.

- **New York, NY** has partially outsourced its 311 municipal call center. In 2001, New York had 45 citywide call centers staffed by almost 1,000 employees. With the election of Mayor Michael Bloomberg in November 2001, came a complete reorganization of the City’s call centers into a single 311 service center. Due to the huge volume of calls to the system for a city of over 8 million people, New York outsourced a portion of call center operations to private vendors for peak periods. At particularly busy times, contracted call assistants assist callers. In addition, New York contracts with Language Line, a translation and interpretation services company, to handle foreign-language calls. New York found that using contracted call assistants reduces the need for costly permanent personnel during peak periods and services to non-English speaking City residents.

**Transportation and City Infrastructure Services**

- **Sunnyvale, CA** completely outsources traffic signal maintenance. The preventive maintenance and repair of the city’s traffic signals have been outsourced for over 10 years. The contract is subjected to a competitive bidding process every one to three years, and is overseen by the city’s Division of Transportation and Traffic. Sunnyvale typically negotiates fixed price contracts and requires contractors to put up a performance bond, to protect the City against cost and performance risk. In addition to Sunnyvale, the cities of Newport Beach, CA and Lakewood, CA have also completely outsourced this function.

- **Dallas, TX** outsources 60 percent of its street sweeping operations. In recent years, the City negotiated three year contracts for street sweeping services on select City streets. Due to a very competitive bidding process, Dallas has seen its cost per gutter mile swept fall from $20 in 2004 to $17.44 in 2007. Like Dallas, many other cities have also found it more cost effective to outsource this function rather than fully retain it in-house, given the significant cost of sweeper maintenance and labor.

- **Philadelphia, PA** recently contracted out operation of its waste treatment plant. Previously, the City experienced complaints about the odor and bad aesthetics of its sludge processing facility. In addition, the plant lacked the capacity to fully
process liquid sludge into exceptional quality biosolids and reuse the processed biosolids effectively. Under the terms of the contract, a contractor will take over plant operations and construct a new facility to convert treated waste into pellets that qualify as fertilizer for a broader range of uses. In the end, the privatization is estimated to yield cost savings ranging from $100 million to $200 million over the life of the 23-year contract\textsuperscript{13}.

**Public Safety Services**

- **Houston, TX** outsources background checks for incoming fire cadets. Houston admits approximately 375 new cadets into its fire academy each year out of about 2,000 applicants. In 2002, Houston paid local companies Joe Winter Investigations and Boyd Smith & Associates $480,000 over three years to take over screening functions. The move is estimated to free the department’s 70 arson specialists from routine administrative tasks to concentrate on investigating the City’s approx. 18,000 fires per year\textsuperscript{14}.

- **Lakewood, CO** uses volunteer labor for certain police activities. The City uses trained citizen volunteers for police administrative work, such as fingerprinting citizens and issuing parking tickets to violators of handicapped parking. Training comes in the form of a citizen police academy and a police ride-along program. Volunteers are currently employed in all divisions of the Police Department, doing clerical work, computer entry, statistical analysis, investigative assistance, community presentations, and neighborhood speed control under the supervision of City personnel. Volunteers also manage the neighborhood watch program and create and distribute newsletters and brochures for the program. As a result, Lakewood has realized cost savings in multiple areas, targeting resources to core police services. Engaging talented citizens committed to public service has proved to be an excellent means to cut staffing costs, reduce administrative overhead, and concentrate existing police staff on directly improving public safety. Although Lakewood is a much smaller city than Colorado Springs, the model can be tailored to adapt to Colorado Springs’ unique circumstances.

- **Chelsea, MA** has outsourced its entire parking enforcement operation. In 1992, Chelsea’s parking enforcement program operated at a deficit and annual collections totaled $150,000\textsuperscript{15}. In 2006, after outsourcing parking enforcement,

the City collected over $1.5 million and received a net surplus of over $1 million\(^\text{16}\). Private operators are often more willing to invest in capital equipment and technology that eventually improve productivity and efficiency, thereby reducing cost. The cities of Anaheim, CA, West Hollywood, CA, and Montgomery County, MD, have also outsourced parking enforcement and realized substantially increased revenues and a lower parking enforcement cost per hour. Most recently, Atlanta, GA moved ahead with plans for a parking ticket and meter collection privatization initiative that is projected to increase revenue for the City.

- **Berkeley, CA** uses private security guards at some city facilities. In 2005, the City contracted with Securitas Security Services, USA to provide security guards at two city office buildings. The guards were responsible for monitoring traffic, providing information to visitors, directing citizens to appropriate city offices, and securing public restrooms at the end of the day\(^\text{17}\). Berkeley has found it more cost effective to use a contractor to secure public buildings than have City employees provide service for very brief periods of time. Using contracted security guards has also allowed for the flexibility to absorb staffing reductions mandated by budget cuts, without the need to terminate unionized City employees. In addition, the state governments of Kansas, New Mexico, and Missouri also use private security guards at state office buildings, due to the flexibility and cost savings offered by contracted security.

**Parks and Recreation Services**

- **Los Angeles County, CA** contracts out management and operation of 16 of its 19 county golf courses to small firms, groups of individuals, and larger management firms. The contracting effort was intended primarily as a means to raise revenue, and in very short time met that goal. By 1996, seven years after the privatization, the County realized a 146 percent increase in annual revenue for its Mountain Meadow Course\(^\text{18}\). Privatizing golf courses has also been a popular means for cities to increase user fee revenue. From 1987 to 1995, the percentage of cities contracting out for golf course services increased from 15 percent in 1987 to 25 percent in 1995\(^\text{19}\). Other major cities such as New York, Chicago, and Detroit

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\(^{16}\) Ibid.

\(^{17}\) City of Berkeley, CA; Office of the City Manager. Contract No.6818 Amendment: Securitas Security Services USA Inc. April 22, 2008.

http://www.ci.berkeley.ca.us/uploadedFiles/Clerk/Level_3_-_City_Council/2008-04-22_Item_33_Contract_No._6818_Amendment_Securitas_Security_Guard_Services_USA__Inc._for_1947_Center_Street_and_2180_Milvia_Street.pdf


http://www.privatization.org/database/policyissues/golf_local.html

\(^{19}\) Contracting Public Services Survey: 1995 Update. Mercer Group, Atlanta, GA.
have contracted out municipal golf courses and seen notable improvements in facilities, conditions, and more importantly, annual revenue.

**Transit**

- **Washington, D.C.** has partnered with commercial landowners to finance construction of a new transit station. In 1998, the government of the District of Columbia developed a Citizens Plan for Prosperity in the 21st Century that identified areas of the District in need of economic development. The Plan called for the construction of a new, in-fill Metro station at New York Avenue to spur development in the underdeveloped North of Massachusetts (NoMa) corridor. In response, the District’s Department of Housing and Community Development and Department of Transportation worked with area commercial landowners to come up with a creative solution to finance the project’s projected $100 million cost. The landowners agreed to donate land for the new station and pay an annual development fee that generated $25 million toward the project. In the end, the project was projected to generate more than $1 billion of total public-private investment and over 5,000 permanent jobs in the area around the new station.

**Managed Competition**

Managed competition is a competitive bidding model employed by some cities to test the market for improved service delivery and lower cost. It is a structured, actively managed, and transparent process allowing for comparison of in-house staff and contractors and their abilities to deliver quality public services at a reasonable cost. When implemented correctly, managed competition has the potential to produce annual savings of 10-30 percent.²⁰

Typically, managed competition is restricted to areas seen as not inherently governmental, such as public works, park management, and transportation. Under the process, a Statement of Work is distributed by a city to both private vendors and in-house staff. When drafting a proposal, in-house staff are often forced to restructure organizations and processes in a way that is more competitive with private vendors.²¹ Often, cities establish a “firewall” between Statement of Work and in-house proposal draft teams, to ensure that in-house staff do not get an advantage through access to internal information. Next, in-house and contractor proposals are evaluated by an independent board. The board then selects a “best value” service provider according to predetermined cost, experience, and quality criteria.

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Managed competition has the potential to transform in-house service delivery, making it more efficient, accountable, and cost effective. In addition, it forces city agencies to examine service quality and gauge the full cost of providing a service, enabling them to take active steps to improve performance. However managed competition also takes a significant amount of planning to be successful. Reliable structures must be set up to monitor, manage, and regulate the competitive process that can be costly to construct and maintain. However these costs should be weighed against the potential benefits from the program. When feasible, introducing the competitive mechanisms and efficiencies of the private sector in city agencies can be a powerful means to reduce costs and improve in-house operations.

**Examples:**

- **San Diego, CA** has introduced managed competition to a host of city services, including trash collection and street sweeping. Under Mayor Jerry Sanders’ 2007 plan, private contractors compete with City staff for a range of non-governmental service contracts, including one-fifth of San Diego’s trash collection routes. The City develops a Statement of Work and acquisition plan, and disseminates an RFP to a City agency and private vendors. An independent evaluation board, the Managed Competition Independent Review Board (MCIRB), evaluates the proposals to ensure a level playing field, and then recommends the “best value” proposal to the Mayor. The Mayor then either accepts or rejects the MCIRB recommendation. If accepted, he forwards it on to City Council for final approval. The Reason Foundation estimates that with an expanded scope, the City has the potential to save $80 to $200 million per year through the program.

- **Pittsburgh, PA** has managed competition processes for select city services. Under the City’s program, City unionized employees and private firms competed for contracts to provide fleet maintenance, animal control, and solid waste collection services. In the end, the City selected a private vendor for fleet maintenance services, with savings estimated to exceed $1.4 million a year. City employees won the award for animal control services, with a proposal to save over $50,000 the first year, and almost $500,000 over six years through a plan to redesign existing operations.

- **Charlotte, NC** has a comprehensive managed competition program for a wide variety of city services. Each of the City’s Key Business Units (KBU’S) develops a competition plan outlining what services will compete with the private sector during the coming year. The plans contain a timetable for subjecting a service to

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competition, a strategy for making business practices more competitive, a justification for retraining service in-house without competition, and the reasons to contract with a private firm without managed competition\textsuperscript{24}. Within three years of the start of the program, the City had conducted 34 competitions, 24 of which were awarded to the City agency and 10 to a private vendor. City workers alone were able to achieve $2.4 million in savings in other services that were not subjected to competition\textsuperscript{25}.

- **Indianapolis, IN** began a managed competition process for fleet services in 1995. The City gave its Fleet Services Division (IFS) three years to prepare for a competitive bidding process. As a result, IFS focused its efforts on implementing employee-generated reforms and strengthening its cost record-keeping and performance measurement system. These innovations enabled IFS to develop an accurate annual budgeting method and performance-based incentives. IFS also implemented a market-based rate structure for its customers, which resulted in the outsourcing of 20 to 25 percent of its work. By the end of the initial contract period, IFS had reduced its total costs by 35 percent and managed to successfully underbid all private vehicle repair firms that submitted bids.

**Public-Private Partnerships**

As mentioned earlier, public-private partnerships are unique ways of organizing public and private stakeholders to provide valuable programs, projects, or services. These partnerships have been used to advance a number of major civic projects that have enhanced infrastructure, fostered community development, and improved public safety. Public-private partnerships are particularly useful for achieving projects with high upfront costs, but broad, long-term benefits.

Several major cities have adopted public-private partnerships to achieve goals in a variety of program areas:

- **Houston, TX**’s Project Houston Hope rehabilitates vacant tracts in inner-city neighborhoods into affordable housing and then sells them to middle and low income families. Since 2005, the city’s Land Assemblage Redevelopment Authority (LARA) has worked with Linebarger Goggan, the law firm responsible for collecting delinquent taxes, to acquire tax delinquent, derelict properties and redevelop them into attractive middle and low income housing. LARA and Linebarger Goggan developed a legal process to sell a bundle of properties below the amount of taxes owed and transfer them to LARA. LARA then engaged local community development corporations to manage construction of affordable housing on the properties. The City in turn utilized two of its homebuyer


\textsuperscript{25} Ibid.
assistance programs to secure buyers for the new homes. As a result, the formerly blighted properties are back on the tax rolls at a higher value, while saving the city $1 million each year in mowing and demolition costs\(^26\). Private investment in inner city properties has also soared, raising property values and attracting new businesses to the area.

- **Washington D.C.**'s Metropolitan Police Department partnered with Lockheed Martin IMS to develop a red light photo enforcement program. In 1999, the District negotiated an agreement with IMS under which IMS covers all up-front capital expenses for the system in return for a contingency fee for each fine it collects from violators. In addition, IMS handles all aspects of the program including installation, image processing, vehicle owner identification, issuing notices, and collecting fines at no cost to the District. In about one year, IMS mailed 133,732 notices and collected $6,104,839 in fines, while red-light violations at intersections with cameras dropped by an average of 47 percent\(^27\).

- **Chicago, IL** worked in partnership with major local corporations to develop a popular new downtown park. The City was able to obtain $200 million of the $450 million construction cost in private financing for the internationally acclaimed Millennium Park\(^28\). In addition, during the construction phase, URS Corporation provided complimentary staff for program and construction management. The park has since caused a dramatic rise in surrounding property values, an influx of new residential development, and a notable increase in tourism. The park is also predicted to attract $1.4 billion in residential development, 36 million visitors, and $1.9 billion in revenue from hotel, restaurant, shopping, and entertainment venues over ten years\(^29\).

**Outsourcing Advisory Boards**

Outsourcing advisory boards are government commissions that oversee, plan, coordinate, and assist outsourcing efforts. These boards have been used by states across the nation to coordinate broad outsourcing efforts. At least 14 states have boards and commissions related to competition and privatization, many of which provide assistance to agencies in implementing outsourcing initiatives\(^30\). While not commonly adopted by cities, an outsourcing advisory board can be an excellent way to coordinate

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\(^{29}\)Ibid.

\(^{30}\)Gordon Higgins. “Privatization Proposals in Other States.” Montana Legislative Services Division. [http://leg.mt.gov/content/publications/research/past_interim/blacrecomms.pdf](http://leg.mt.gov/content/publications/research/past_interim/blacrecomms.pdf)
and sustain a broader outsourcing effort. In addition, they can provide the political leadership for advancing an outsourcing initiative in a difficult environment.

Outsourcing in Colorado Springs has at times been executed on a relatively ad hoc basis, with the Traffic Engineering Division noting that engineering contracts have been executed that cost the City more than providing a service in-house. Outsourcing advisory boards provide guidance, direction, and coordination for individual agencies, ensuring that outsourcing is executed to produce the best results for a city. They are also an excellent way to organize outsourcing efforts around a set of key contracting principles. Furthermore, they can be used to undertake citywide planning on what can effectively and affordably be outsourced and what should be retained in-house. The net result might not always be the large-scale outsourcing of major city functions, but rather a fundamental examination and reorganization of current business practices, policies, and modes of organization in line with what is competitive.

**Outsourcing in Colorado Springs**

Colorado Springs currently makes extensive use of outsourcing. A significant portion of the City budget is allocated to contract expenditures. In 2008, the City spent $178.1 million on outsourcing, including 410 contracts, 3,370 purchase orders, and over 55,000 credit card transactions. By comparison, the 2008 All Funds budget was $359.8 million\(^{31}\). In the past, the City has tried to strike a balance between outsourcing contracts and in-house work, as each option has certain advantages and disadvantages.

Below is an overview of the use of outsourcing in each selected City department or division:

- **City Clerk** - The City Clerk’s Office limits its use of outsourcing to ballot processing and printing.

- **Engineering** - In the Engineering Division, outsourcing is used extensively for design and construction work as well as for some project management. Approximately 80% of engineering project work is outsourced. Some signal construction and maintenance, the school safety program, the traffic count, and much public infrastructure work for new developments are also typically outsourced. In addition, project studies, reports, analyses, and designs are typically contracted out to private vendors.

- **Fire** - Outsourcing in the Fire Department is limited to contracts for recruitment exam testing, facility maintenance and repair, and engineering, and construction

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\(^{31}\) Fiscal Year 2008 accounts for the period of July 1\(^{st}\), 2007 through June 30\(^{th}\), 2008. Outsourcing expenditures are only for calendar year 2008.
services. However, emergency medical transport is outsourced by El Paso County to a private operator, American Medical Response

- **Parks, Recreation, and Cultural Services** - Parks, Recreation, and Cultural Services uses outsourcing in areas such as recreation programs, median mowing, fence repair, and golf course operations.

- **Fleet Management** - Fleet Management uses contractors for some vehicle repair work and inspections as well as all towing, acquisitions and disposals, and fuel site maintenance.

- **Streets** - The Streets Division makes very limited use of outsourcing, engaging Colorado Springs Utilities for major facilities work.

- **Police** - The Police Department uses outsourcing for non public related functions such as IT, document shredding, towing, janitorial services, uniforms, fleet equipment, property code violation clean-up, facilities repair and maintenance, and outstanding fee collection. In addition, CSPD uses private security guards at its vehicle impound lot.

- **Transit** - All Transit Services operations are contracted out to First Transit and Veolia Transportation. These operators are responsible for all operations, management, equipment, and maintenance of transit vehicles.

Outsourcing in Colorado Springs has historically been used for a variety of reasons, ranging from the inability for the City to directly use unionized workers to a lack of in-house time and expertise to provide a service. Although the City in the past has used outsourcing on a case by case basis to reduce costs and the burden on in-house staff, there remain select opportunities for expanded use of outsourcing, discussed in the expenditure chapters. This would be greatly helped by a systematic examination of the City’s current use of outsourcing, the costs and benefits it imposes, and how it can be better tailored to meet the city’s service needs. The net result might not necessarily be an increase in outsourcing expenditures, but perhaps a recalibration of the city’s outsourcing practices to produce better results.

**Conclusion**

In sum, outsourcing can be a powerful tool to improve municipal performance. Cities across the nation have successfully used it to improve quality of service, raise new revenues, reduce costs, and refocus on more critical priorities. When executed carefully with certain guidelines in mind, outsourcing can be effective in achieving the City of Colorado Springs’ service delivery goals. Outsourcing is not something that can be done passively; it requires a significant amount of preparatory work, management, and attention to ensure it yields positive results. Although not always the best solution for
the City’s service delivery problems, it can yield positive results when applied to select service areas needing improvement. The City already makes very extensive use of outsourcing; however there is an opportunity to use it a smarter and more effective way to target areas in need of genuine improvement or significant cost savings. Selectively harnessing the power of the private sector to add public value can only make Colorado Springs a better place to live, work, and play.