

Approved: 3/6/96 *la*
Date

MINUTES OF THE HOUSE COMMITTEE ON BUSINESS, COMMERCE & LABOR.

The meeting was called to order by Chairman Al Lane at 9:07 a.m. on February 14, 1996 in Room 526-S of the Capitol.

All members were present except: Rep. Jill Grant - excused
Rep. Terry Presta - excused
Rep. Candy Ruff - excused

Committee staff present: Jerry Donaldson, Legislative Research Department
Bob Nugent, Revisor of Statutes
Bev Adams, Committee Secretary

Conferees appearing before the committee: Senator Pat Ranson
Jeff Chaney, President, Kansas Council on Privatization
John Berberich, member, Kansas Council on Privatization
Orville "Butch" Spray, member, KS Council on Privatization

Others attending: See attached list

The minutes of 2/6, 7, 8, and 9 were passed out. They will be approved at the next meeting.

Committee action on:

HB 2742 - Business entity cleanup; expansion of fax filings; addressing shareholders' filing requirements.

A motion was made by Rep. Ballard to pass the bill out favorably and place it on the Consent Calendar. It was seconded by Rep. Geringer. The motion carried.

Committee action on:

HB 2744 - Corporations or transfer agents need not require a fiduciary furnish a consent to transfer, as proof of the release of the lien prior to the completion of the transfer

A motion was made by Rep. Packer to report the bill adversely. It failed for a lack of a second. Rep. Packer made another motion to table the bill. It was seconded by Rep. Geringer. A substitute motion was made by Rep. Pauls to pass the bill out favorably. It was seconded by Rep. Standifer. A long discussion followed. On vote, the motion to pass the bill out favorably failed. The committee returned to the original motion made to table the bill. The motion carried.

Hearing on:

SB 102 - Establish Kansas Performance Review Board

The Kansas Council on Privatization was created by the 1994 Kansas Legislature by **SCR 1626**. They were charged with studying the issue of contracting private performance of governmental services and developing recommendations to improve the delivery of services to Kansas citizens and issuing a final report to the Governor. The Council furnished the committee with copies of their final report; Privatize, Eliminate, Retain or Modify; A strategy for Competitiveness in Government. The Council made several recommendations, one of which is contained in **SB 102**. See Senator Ranson for additional copies of the report.

Senator Pat Ranson appeared before the committee to give the history of the bill and to introduce others who will be testifying. **SB 102** was passed in the Senate late in the 1995 session by a vote of 29-11. It establishes the Kansas Performance Review Act which would provide an organized process to review state government functions to determine whether they are being implemented in a cost-efficient manner and maintaining quality public services. (see Attachment 1) She finished her presentation by answering questions from the committee.

Jeff Chaney, President of the Kansas Council on Privatization, testified as a proponent of the bill. His two recommendations was to establish the review board and the adoption of the Privatize, Eliminate, Retain or Modify (PERM) model to determine the best strategy for improving the efficiency of government service. He stated that the council made no recommendations on which agencies should be privatized, but did recommend ten for study. The main idea of forming a review board is to make privatization more uniform. (see Attachment 2) He concluded his testimony by answering questions from the committee.

John Berberich, member of the council, talked about the cost accounting or "analysis" aspects of the bill. He was on the cost accounting subcommittee of the Council. It is important to get an accurate and full cost assessment of the agency being reviewed before those costs can be compared to the costs of contracting out.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON BUSINESS, COMMERCE & LABOR, Room 526-S
Statehouse, at 9:07 a.m. on February 14, 1996.

There is a lot of information available now on the Kansas accounting system (STARS), but more information will be needed on the cost of functions of an agency. Thus, accounting reforms will be needed long range. (see Attachment 3) He ended by answering questions.

Orville "Butch" Spray, President of Venture Corporation, appeared as a member of the council in support of **SB 102**. The council feels that the competition that would come from privatization would save taxpayers money. Private entities are available to perform many of the services and can deliver them efficiently. It would allow the government to privatize services that are available in the private sector, eliminate services that are no longer needed, retain governmental services that are working in their present form, and allow modification for services that need it to be adjusted for greater efficiency and lower cost. (see Attachment 4) He ended his testimony by answering questions.

The hearing on **SB 102** will be continued on February 15, 1996.

The meeting was adjourned at 9:55 a.m.

The next meeting is scheduled for February 15, 1996.

HOUSE BUSINESS, COMMERCE & LABOR COMMITTEE
GUEST LIST

DATE February 14, 1996

NAME	REPRESENTING
Bob T. Han	Kansas Contracting Association
ORVILLE (BUTCH) SPRAY	VENTURE CORPORATION
Charles Warner	Kansas Inc.
Scott Stone	KAPE
Wayne Maichus	Ks. AFL-CIO
John Berpich	Berkich Tractor S.
Bob Hinton	Post Audit
Bob Clawson	SRS
Jamie Clover Adams	Ks Grain & Feed Assn
Quinn Toplikar	
JASON PITZENBERGER	BRAD SMOOT - KCC
Amy Hendrickson	Dept. of Administration
Bill Oppenfeldt	Inter
Pat Ranson	Ks, Senate
Bob Corkins	KCCI
Terry Leatherman	KCCI
Jeff Chanay	Entz & Chanay

Testimony for House Committee on Business, Labor & Industry

Senate Bill 102-the Kansas Performance Review Act

February 14, 1996

Senator Pat Ranson

Thank you Chairman Lane and members of the committee for conducting this hearing on SB 102, a bill that was passed, as amended, by the Kansas Senate late in the 1995 session by a vote of 29 to 11. This bill establishes the Kansas Performance Review Act which provides an organized process to review state government functions to determine whether they are being implemented in a cost-efficient manner and maintaining quality public services. The centerpiece of this act is the creation of the Kansas Performance Review Board.

SB 102 is one of three pieces of legislation prepared by the Kansas Council on Privatization. The Council was created by the 1994 Kansas legislature by SCR No. 1626 and charged with studying the issues of contracting for private performance of governmental services, and developing recommendations to improve the delivery of services to Kansas citizens and issuing a final written report to the Governor, the Senate President, and the Speaker of the House by January 20, 1995. A copy of that comprehensive report has been distributed to you.

The Council was made up of fifteen persons representing the private sector, state employees and legislators. It was privately funded and staffed by Kansas Inc., KCCI, and by the legislative research and revisor's office.

*House Business, Commerce,
& Labor Committee
2/14/96
Attachment 1*

The Council tried to think in new ways about the delivery of government programs, and concluded that despite the extensive use and long experience with various forms of privatization, Kansas state government lacks an overall framework for privatization decisions, and that there is a compelling need for a rigorous methodology and process for determining whether privatization options are appropriate, efficient, and effective. The report provides a detailed analysis of the issues surrounding this topic, with special emphasis on cost accounting procurement, and the role of state employees. The report, entitled "Privatize, Eliminate, Retain or Modify: A Strategy for Competitiveness in Government", makes over 30 recommendations to improve state government. The establishment of the Kansas Performance Review Board addressed in SB 102 is the major vehicle for the implementation of these recommendations.

Several members of the Council on Privatization and its staff are present today: Jeff Chanay, Chairman; John Berberich, Butch Spray, Bob Corkins, and Charles Warren, and I.

I ask for your support of the initiative offered in SB 102. I sincerely believe that it will help us deliver more efficient and quality services to the taxpayers of Kansas. Thank You.

MEMORANDUM

To: House Business, Commerce & Labor Committee
From: Jeffrey A. Chanay
Date: February 14, 1996
Subject: Kansas Council on Privatization/Senate Bill 102

Mr. Chairman and Members of the Committee:

My name is Jeff Chanay and I am an attorney in private practice with the Topeka law firm of Entz & Chanay. I appear today as Chairman of the Kansas Council on Privatization. I thank you for the opportunity to testify in favor of Senate Bill 102.

Other conferees will testify concerning the detailed aspects of the Council's work. I testify today to highlight the two major recommendations contained within the Council's report and Senate Bill 102 -- the establishment of the Kansas Performance Review Board and the adoption of the PERM analytical model to determine the best strategy for improving the efficiency of government service.

Across the country, state and local governments are turning to privatization as a means of improving efficiency in the delivery of public services while lowering the cost to taxpayers for those services. In various states virtually every function of government -- from highway construction to social welfare programs to public education -- has been performed by the private sector. According to a recent survey conducted by the Council of State Governments, more than 85 percent of state auditors, budget directors, and comptrollers predicted increased privatization over the next five years.

Privatization can be broadly defined as the act of reducing government, while increasing the role of the private sector in an activity or in the ownership of assets. Privatization involves transferring the financing and/or the production of a service from the public sector to the private sector, and privatization activities may take such forms as contracting out, vouchers, asset sales, deregulation, and service shedding.

Kansas, like most states, has privatized several governmental functions over the past few years. However, privatization has proceeded in a piecemeal, haphazard

*House Business, Commerce
& Labor Committee
2/14/96
Attachment 2*

fashion as there is no coherent state policy to guide the privatization decision making process. Thus, there is a clear and compelling need to establish a framework within Kansas state government that provides a rigorous methodology and process for determining whether the option of privatization is appropriate.

Between June of 1994 and January of 1995, the Kansas Council on Privatization invested nearly one thousand hours of research and meeting time to prepare a privatization plan for Kansas. The Kansas Council on Privatization was charged with studying the desirability and feasibility of privatization and reporting the results of that study to the Governor and legislature. The result of the Council's work is our final report and Senate Bills 100, 101, and 102.

The first and foremost concept to emerge from the Council's work is the need for a permanent Board to analyze selected activities of government for privatization. Titled the Kansas Performance Review Board, the KPRB, working with the Department of Administration and the targeted state agency, would analyze certain functions of government to determine whether privatization is appropriate. Under Senate Bill 102, the KPRB would be charged with conducting an analysis of certain government functions and making recommendations to the Governor and legislature concerning the results of the analysis.

The second major concept to emerge from the Council's work is the need for an analytical model to determine the best strategy for improving the efficiency of a particular government service. Both the Council's report and Senate Bill 102 adopts a Michigan-type PERM analytical model.

Under the PERM (the acronym for privatize, eliminate, retain or modify) analytical model, the analysis of the targeted governmental service, when completed, would result in one of four possible decisions: to privatize the activity in whole or in part; to eliminate the activity; to retain it in its current form; or to modify the activity, but retain it in state government. The purpose of this proposed analytical model is to have a more responsive, more effective, more efficient, and less costly state government. Consequently, the analysis must be comprehensive. It must examine the interrelationships among agencies and programs, discover duplication of activities in or among agencies, evaluate the need for particular services and service levels, and provide for an accurate estimate of the recommended actions on the state budget and the quality of life of Kansas citizens.

The Council's final report contains a well-reasoned, fully researched privatization plan for Kansas. If adopted, Senate Bill 102 will establish for Kansas a

framework for maximizing efficiency in the delivery of public services while minimizing the financing required for the production of those services. It is the view of the Council that by instilling competitiveness into governmental operations, scarce revenue dollars will be utilized in a more efficient, cost-conscious fashion.

I thank the Committee for its consideration of this bill, and request that Senate Bill 102 be reported favorably for passage.



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TESTIMONY OF JOHN T. BERBERICH

IN SUPPORT OF SENATE BILL NO. 102

My purpose here today is to express my support for the establishment of the Kansas Performance Review Board as detailed in Senate Bill No. 102. I was the designated CPA member of the Kansas Council on Privatization. I will have been in the public accounting profession for 30 years this June. My clients have included governmental entities on the Federal, State and Local levels as well as large and small private sector entities. I support the entire bill. Rather than repeat what other members of the Council will testify to, I am limiting my remarks to the cost accounting or "analysis" aspects of the bill. I was on the cost accounting subcommittee of the Council. Chapter four of the booklet prepared by the Kansas Council on Privatization discusses cost accounting. An outline of the major topics in this chapter is attached to my written testimony. I hope that no one would disagree that if we are to make a judgment about a Governmental function, and particularly as to possible privatization, that we should know the full cost of that function. This would include direct and indirect expenses. Likewise, we should know the total cost of contracting out, including monitoring and conversion costs. I believe that this bill adequately addresses such in Section 5(a). The cost accounting subcommittee also looked at whether it was feasible to determine the full cost of a function. We found that the Kansas accounting system (STARS) produced a lot of information but primarily on an agency natural account basis (e.g., salaries for agency) rather than by function. However, it can produce a good base to start with, but further analysis would have to be performed.

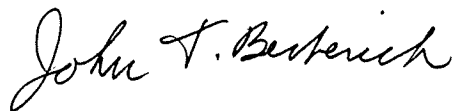


*Nancy Business, Commerce
& Labor Committee
2/14/96
Attachment 3*

In addition, some agencies, particularly those receiving Federal funds, have certain indirect costs identified because of the Federal requirements (cost allocations plus).

We contacted other states and they also could not click a "mouse" and come up with all the data required and had to perform additional analysis. These states were able to accomplish the analysis required with the assistance of the reviewed agency and in certain cases other parties. Our subcommittee concluded that we would come up with the costs of a function though analysis work would have to be performed at the agency level and by other parties and that some estimates would have to be used. We concluded that this would be no different than in the private sector where estimates are used in projecting costs of a function or product.

In conclusion, I believe it is wise to have at least one member of the performance review board have cost accounting experience as indicated in Section 2. I also believe that Section 5(a) is important, and, most of all, can be accomplished through a detailed process which was described in the Kansas Council on Privatization booklet. I again reiterate my support for Senate Bill No. 102.



John T. Berberich

Cost Accounting

- **Importance**
- **Current Status of Agency Accounting Practices**
 - Minimum responsibility
 - Varying levels of detail
 - Cost allocation plans
- **Other States' Experience**
- **Elements of an Accurate Cost Assessment**
 - Fully allocated costs
 - Direct costs
 - Indirect costs
 - Avoidable vs. unavoidable costs
- **Costs of Contracting Out**
 - Contractor costs
 - Contract administration costs
 - Conversion costs
 - Offsetting revenues
- **Recommended Accounting Reforms - Long Range**

TESTIMONY

by

ORVILLE (BUTCH) SPRAY

PRESIDENT OF VENTURE CORPORATION

before the House Business, Commerce and Labor

Subcommittee

February 14, 1996

Regarding

SENATE BILL 102

Mr. Chairman and members of the committee, I want to thank you for allowing me the opportunity to appear and discuss this issue. My name is Orville Spray and I am President of Venture Corporation, a contractor from Great Bend, Kansas. I am also Transportation Chairman for the Kansas Chamber of Commerce and Industry (KCCI). I serve on the Board of Directors for both the KCCI and the KCA (Kansas Contractors Association). I was a member of the Governor's "Kansas Council on Privatization".

I am here today to ask you to support Senate Bill 102. This bill simply establishes a five member review board to determine the need for and the most efficient manner to provide a state service. The board will use previous successful methods for this determination including P.E.R.M (Privatize, Eliminate, Retain or Modify). There are many reasons to support the bill and few, if any, not to support the bill.

Let us address the reasons to support the bill:

*House Business, Commerce &
Labor Committee
2/14/96
Attachment 4*

1. Cost to the taxpayer
2. Cost to the taxpayer
3. Cost to the taxpayer

A. Privatization

In order to make an intelligent decision on the matter, I believe you need documented data from government entities and others, who have learned to determine if a service should be privatized.

ARTICLE 1: "WE CAN LOWER LOCAL TAXES"--Reader's Digest, September 1985.

(OUTLINE)

ARTICLE 2: "THE BOND BUYER"--August 8, 1995.

(OUTLINE)

ARTICLE 3: U S Department of Housing and Urban Development Study (1984)

"DELIVERING MUNICIPAL SERVICES EFFICIENTLY"

(OUT LINE)

ARTICLE 4: "FOLKS GET THEIR TAX \$\$ BACK IN BEST RUN TOWN IN AMERICA (1995)

ARTICLE 5: KUTC Newsletter (Spring 1995)

A. OUTLINE

B. OUTLINE

ARTICLE 6: OREGONIANS FOR COST EFFECTIVE GOVERNMENT (January 1986)

A. OUTLINE

When all is said and done, what will best protect the taxpayer is competition-competition between private entities.

There should be no sanctuaries for monopolies, for monopolies are bad and government monopolies are the worst of all. Yet, unless some agencies are required by law to foster competition, they will continue to monopolize public works projects.

Let us address the objections to the Privatization section of this bill which have been voiced:

QUESTION 1

"There are not enough bidders and sometimes we only get one bid!"
(HOW MANY COMPETITIVE BIDS DO YOU GET IF THE STATE DOES THE SERVICE?)

WHY? This problem can be addressed by the review board. In the beginning it could be a problem. Private entities usually are available, or become available, to perform all services.

QUESTION 2

"If this service is privatized the wages and benefits will be lower."

During the hearing of the council on privatization we heard this statement many times. I requested from the individuals, who were testifying, studies or documentation corroborating this statement. No data, statistics or information was ever submitted to the council.

Many requests for increased wages for government employee's are based on the assumption they are not equal to the private sector.

QUESTION 3

"Privatization will cut the level of service."

NO PROBLEM: Fire or terminate the contract. I am sure we have all had problems trying to change state agencies.

RESULT: Savings to the Taxpayer.

B. ELIMINATE: Self explanatory. The U.S. Government was financing a committee to determine the quality of wood propellers for military airplanes 20 years after they quit using them.

RESULT: Savings to the Taxpayer

C. RETAIN: The service being provided by the state agency has been examined and it is recommended to be retained in its present form. We will all feel more comfortable our tax dollars are being spent wisely.

D. MODIFY: The service has been modified for greater efficiency and lower cost, or both.

RESULTS: Savings to the taxpayer.

My testimony has been predominately about Privatization. This bill and P.E.R.M. refers to privatization only once. It does refer twice to retaining (or modifying) existing government services.

ARTICLE 4

Folks get their tax \$\$ back in best-run town in America

City Clerk, Adams on May

Crestwood, Ill., is the best-run town in America — because it operates just like a business.

That's what residents of the 12,000-population town say about their home, which is run so efficiently that this year citizens are receiving a 26 percent rebate on their property taxes.

What's more, the town is so well-off that residents over age 55 get free household repairs and their shrubs cut for free!

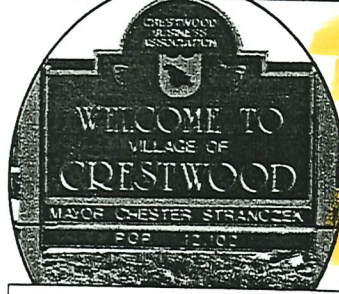
The super-efficient government may soon be able to totally eliminate property taxes!

"I've had my business in Crestwood for eight years and it's the best town in the U.S.," declared restaurant owner Joe Cistaro.

"Mayor Chester Stranczek's philosophy is simple — he contracts out everything.

"And our police are under or-

Real friends are those who see heart to heart even when they don't see eye to eye. — Herm Albright



HAPPY town of Crestwood, Ill., has a secret.

ders not to clog our court system by chasing after speeders hoping to get a \$50 fine. They're told to give speeders a severe warning and then get on with the business of fighting serious crime. So there is almost no crime!"

Stranczek, 64 — a trucking company owner — has been Mayor of this town 25 miles south of Chicago since 1969.

"Businesses don't become successful by running at a loss," he said.

"When I became Mayor we scrapped the huge Public Works Department that handled water

main leaks, etc. We simply contracted these problems out to private contractors.

"So instead of having a bunch of workers sitting around when it was raining, collecting wages, insurance and medical benefits, plus machinery like backhoes rusting, we hired firms to do the work. The savings are fantastic.

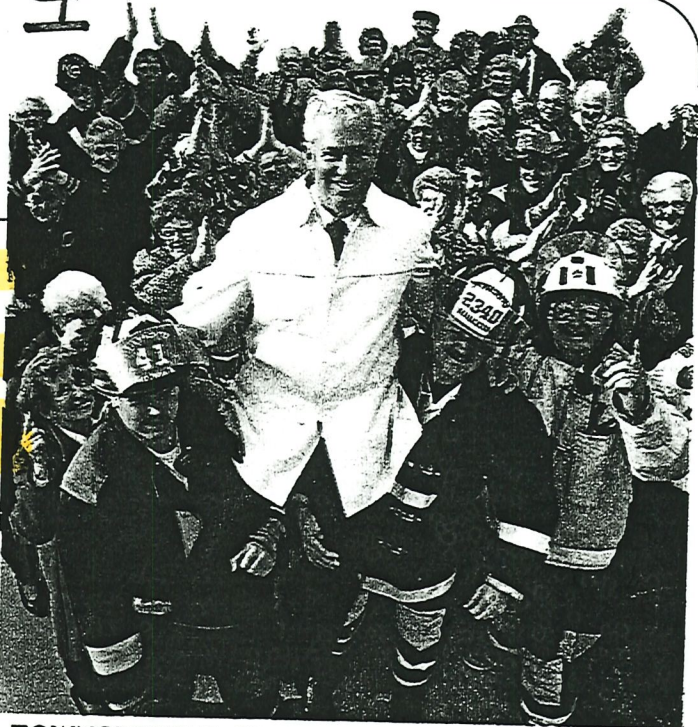
"The same goes for book-keeping. We simply pay an auditor \$8,000 a year to do the work. Savings: maybe \$35,000 a year."

Thanks to efficient government, there's plenty of money to pay for needed services, said Mayor Stranczek.

"We have only three full-time policemen. But we have 40 part-time officers who live in Crestwood and put in 10 to 12 hours a week patrolling the streets. As a result we have one of the safest towns in America.

"This year alone we've given our taxpayers a \$1 million rebate. When you pay your taxes in Crestwood, you get a 26 percent rebate.

"And because of the sales taxes we're getting from new busi-



TOWNSPEOPLE CHEER Mayor Chester Stranczek after the city gave them a \$1 million tax refund.

nesses moving into this desirable area, we hope that within four years, homeowners will have NO property taxes!"

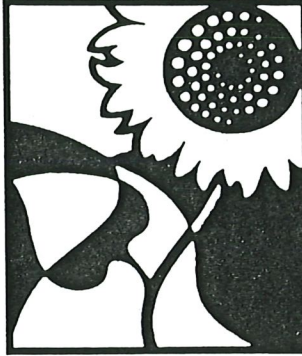
Incredibly, Crestwood has just 17 full-time employees, compared to a nearby town of the same population that has about 150 workers.

"Our budget is \$2 million a

year while a town of similar size, with 12,000 people, might have a budget of \$10 million!" said City Director Frank Gassmere.

Added Mayor Stranczek: "Folks are happy here — and I intend to keep them that way."

— JAMES McCANDLISH



KUTC Newsletter

Spring 1995

A Local Technical Assistance Program of The University of Kansas Transportation Center
In cooperation with Kansas Department of Transportation and Federal Highway Administration

JUN 20 1995

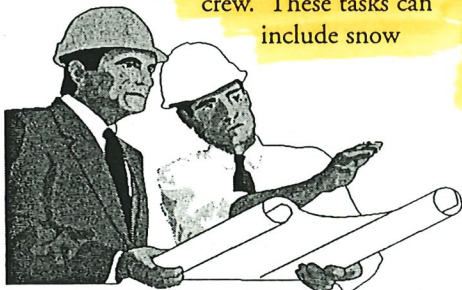
Issue on public works management

Public/Private Works

Contracting with private companies for some of your public works services can make good sense.

by Teresa Blake

Privatizing can allow public agencies to get more work done when crews are stretched to the maximum. Privatizing is the process of hiring private contractors to perform certain activities normally done by the agency's crew. These tasks can include snow



removal, signing, road-marking, installing traffic control devices, pothole repair, bridge painting, street sweeping, and bridge inspection.

Today privatizing is becoming common in all levels of government in the United States, but most is carried out at the local level.

Privatizing on the Rise

Several factors have led to an increase in privatizing. Development has spurred the use of private contractors, especially in areas where there is rapid urban or suburban growth. Occupational safety and environmental regulations have also helped encourage privatizing—using private contracts helps reduce some of the agency's own paperwork involved with these regulations.

Benefits to Local Agencies

Privatizing can save you money. In a recent *Better Roads* survey of agencies that have privatized some of their services, 25.9% said that contracting the services costs the same as their in-house crews and 38.7% reported reduced costs. The main reasons for savings are reduced costs both for labor and equipment ownership or leasing. This is especially true in cases where jobs are done only occasionally. Contract maintenance also reduces in-house liability.

In the *Better Roads* survey, 93.8% of the counties surveyed rated the privatized services as "good." State and city engineers were also pleased. Around 66.5% of the state engineers and 52.4% of the city engineers rated their contracted work as good. Most of the contracted work was for bridge painting and chipseal/surface treatments.

Be Choosy

Privatizing does have a few drawbacks you should be aware of. You will not have the same measure of control over day-to-day operations that you would normally have with your own in-house crew. Some contractors, if left unsupervised, will take short-cuts and use inferior materials. Accepting the lowest bid can mean sacrificing quality for cost. Some agencies have been displeased with poor work, delays, and a few,

In this Issue

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- FHWA's "Red Light Running" Campaign
- Risk Management in Public Works
- Keeping Good Employees from Jumping Ship
- Ten Commandments of Political Engineering
- Results of KUTC Reader Survey
- KDOT Korner
State Level Partnering
KARS Data Now on Disk
- Leg Up Column: Bicycling and Liability
- Regular Features:
Video Reviews
Calendar
Free KUTC Publications and Videos
KUTC Contacts

S-t-r-e-t-c-h Your Road Maintenance Budget—Go Private

by Don Walker
President, Kentucky Crushed Stone
Association

Using private contractors, you can fix your roads for less money—it's that simple.

Knowing that I'm the president of a private industry association, you'd expect that to be my view. But it's not mine alone. City and county engineers around the state agree that for road maintenance jobs other than fixing potholes and mowing, private contractors can do more for less.

Nationally (and not just in Kentucky) the trend is toward privatization. Most state transportation agencies use private firms for some kind of road work. Essex County in Massachusetts recently privatized its highway maintenance work, realizing an immediate savings of \$12 million and an annualized savings of \$7 million.

But why shouldn't a local government do its own road work? First of all, road maintenance equipment such as rollers and pavers are expensive to buy—\$100,000 to \$200,000. If your city or county cannot keep this equipment in constant use for several months out of the year, it's not economical for you to purchase it. It just does not make sense to have equipment worth hundreds of thousands of dollars sitting in a storage yard collecting dust and decreasing in value.

Be aware that maintaining this equipment carries a high price tag, too—especially if it's older.

Private Firms Save Money for Bowling Green

William B. Hays, Jr., the public works director and city engineer in Bowling Green, cited cost savings as the primary reason his city contracts out most paving work.

Hays said that if Bowling Green did its own paving, it would need, first, to buy enough trucks to haul asphalt. It would also need a tight agreement with

the asphalt plant to get those trucks loaded before others, to save the drivers and the paving crew a potentially long wait. Finally, the city would need to buy a paver, several rollers and probably a grader—plus a great deal of support equipment. (The scenario is similar for concrete work.)

There was no way we could buy that kind of equipment and keep it busy.

William B. Hays, Jr.
City Engineer, Bowling Green, KY

"Unless a city or county government is geared up to lay pavement four or five months at a time nonstop, and has a very tight agreement with the asphalt plant, government is going to be hard pressed to do the work at the same economy that a contractor can," Hays said.

Bowling Green recently awarded the job of painting center lines to a private firm, after years of having city employees do it.

"When we looked at the cost of replacing the striper, it was so expensive and so time-consuming in labor that it was cheaper for us to hire private," Hays said. "It turned out that we had a couple of local companies that had just bought new equipment. There was no way we could buy that kind of equipment and keep it busy."

Personnel Costs are Lower for Private Firms

The cost of running equipment is not just in the equipment itself—there's cost of employees, too. Finding qualified operators is not easy, and giving a state-of-the-art grader to an inexperienced operator will jeopardize the equipment and the quality of the job done.

Hiring a private firm means you have workers on the payroll only when

they are needed—it's like turning a tap on, then off again. The headaches about taxes, overhead, personnel conflicts, and insurance are all dealt with by the private contractor.

Because private firms can be more flexible than government (about hiring seasonal labor, for example), private businesses generally have lower costs per employee, too, in both payroll and insurance.

Paducah's director of public works, David Harvell, said that in his area, private firms can do paving work for about a third of what it would cost him using city employees.

Hire Experts

Just as important, he added, is that by hiring a private firm, he can hire special expertise. His municipal workers do "a little bit of everything. But the private contractors' sole reason for existing is to lay pavement, so they become professional in the area," he stated.

One final point: hiring a private firm doesn't mean hiring just anyone who owns a piece of equipment. You want to use contractors who can do the job—and do it right. Hire a firm that uses the proper equipment, run by qualified operators, and which has the financial strength to see a job through.

Following this guideline, you can have confidence that by hiring a private contractor to do your road maintenance work, you are getting high-quality roads for less money. In these days of tight budgets, unfunded federal mandates, and ever-increasing competition for spending priorities, a private contractor can help you make your budget work harder. That's good for everyone.

Adapted with permission from *The Link*, Kentucky Transportation Center, Vol. 10, No. 2, October 1994.

NOT CONTRACTORS

NOT CONTRACTORS

ARTICLE 5-A

OREGONIAN for COST-EFFECTIVE GOVERNMENT

P.O. Box 384 • Lake Oswego, OR 97034 • (503) 636-4003

January 5, 1986

2

**COST-EFFECTIVE GOVERNMENT
BY CONTRACTING WITH PRIVATE BUSINESS**

As costs of government continue to rise in many areas, causing a taxpayer's revolt and threatening the economy as well as priority programs, evidence rolls in to show that cost-effective alternatives are available. We can have the services we need at a price we can afford.

One such alternative is called privatization. When government turns to private firms for what they do best, either by outright ownership or by contracting, we taxpayers can be the big winners. At the same time, we can give a boost to the innovative and competitive private firms upon which the future of our economy depends.

Jackson County, Oregon, saved \$118,000 in its first contract for Crash Fire Rescue service at the city-county airport, one of many steps taken in the last four years to increase the cost-effectiveness of county services in the face of major cuts in timber revenues. Salem, Oregon, exposes the city's in-house staff to competition from private firms. If a service can be done more cost-effectively by contract, the private firm wins the bid. Over \$2 million in services, such as building security, janitor service and park maintenance, were contracted-out in 1985, in addition to \$26 million for construction of major public facilities.

Portland contracts-out for food service in its new jail, for parking garage management and security for special events, for youth center management and for other services, in addition to public works projects. Tualatin contracts for police service and thus can choose between adjacent counties for the quality and cost of service it will purchase. North Bend and other school districts are served by private school buses. Phoenix, Arizona, saves 54% by contracting for dial-a-ride taxis as a substitute for large bus service on Sundays and in low density areas. A recent study in matched California cities, prepared for the U.S. Department of Housing and Urban Development, revealed that cities could expect to save 42% by contracting-out janitorial service, 29% on contracted refuse collection, 36% on traffic signal maintenance, 30% on street cleaning and as much as 49% by contracting with private firms for asphalt street paving.

Interviews reveal that governments who use contracting successfully, while remaining accountable to the taxpayers for quality as well as for costs - take four essential steps. They discover (1) the real costs of providing the service in-house (cost allocation to reveal both direct and indirect costs), so that public officials have adequate financial information to set priorities among service levels and to make contracting decisions.

To hold officials, public employees and contractors accountable for quality and for bottom line costs, successful officials (2) develop clear specifications, (3) assign monitoring responsibility to accountable public employees, and require performance bonds and other contract provisions to assure specifications are met. With these assurances in place, they (4) assure choice and competition between service providers, public and private. That's how they provide the services taxpayers want at a price we can afford.

We Can Lower Local Taxes

ARTICLE 4
PHOENIX

As pressures mount on municipal budgets, Phoenix and other cities are proving that taxpayer dollars can be saved even as more and better services are provided

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BY RANDY FITZGERALD

TWENTY MILES southeast of Phoenix, a new waste-water treatment plant is nearing completion in the fast-growing city of Chandler. Because it will be a privately owned and operated facility—the first in the nation to serve a city this size—taxpayers will save about \$1 million a year.

- In neighboring Mesa, janitorial services were turned over to a private contractor in 1981. Now the city's buildings are kept pristine for \$250,000 less than when the city performed the service.

- In Scottsdale, adjoining Phoenix, the first U.S. city to use a private company for fire protection boasts of better-than-average fire-response times, at less than half the cost in cities of comparable size.

Across Arizona, rapid growth and tight budgets have stimulated new approaches to providing local government services, with "privatization"—contracting out to the private sector—as the centerpiece. Nowhere have changes been more rapid or far-reaching than in Phoenix, the ninth-largest city in the United States. Its innovations, which produce more services with fewer resources, are apparent in subtle but significant ways:

In new residential construction, for example, a single city inspector checks for structural safety, compliance with electrical and plumbing standards, soundness of mechanical systems, and adherence to the zoning code—tasks which in many cities involve four or more inspec-

tors. This consolidation alone saves the city over \$1 million annually.

In the city's Human Resources Department, a middle manager takes daily inventory of her productivity. She oversees dozens of employees, yet her salary is not based solely on that fact, or on how large her budget is; her pay is also tied to a Performance Achievement Program, rewarding her for improved performance and provision of services at the lowest possible cost.

A pivotal moment in the Phoenix success story came in 1978, in the wake of California's Proposition 13 and a nationwide tax revolt. Faced with the dilemma of trimming costs without curtailing services, the city council approved a call for bids from private companies to collect city refuse.

"Are you going to compare their bids with your own costs?" then-Mayor Margaret Hance asked Ron Jensen, director of the city's Department of Public Works.

"Yes, and we will bid too," Jensen replied offhandedly.

When the council meeting ended, Jensen realized that he had committed his department to compete with private contractors. Doubts began to surface. Could a large municipal agency ever outbid efficient private companies? After conferring with his staff, Jensen decided: Why not? In fact, why not use contracting out as a way to force city agencies to be more efficient?

To keep politics out of the bidding process, a city auditor examined the books of municipal departments, estimated equipment and labor costs, then prepared the city's sealed bids. Public Works lost to private contractors on the first four contracts let for trash collection in various parts of the city. But these setbacks only strengthened Jensen's resolve to make his department more productive.

Private-sector management techniques, new technology and other fine-tuning were added. Attrition and transfers reduced the number of sanitation employees by more than a third. But the biggest turnaround, says Jensen, came in employees' attitudes. "Before contracting out, there was little pressure on our department. We had nothing to compare our performance against; there were no real incentives. Now employees have been seized by a competitive spirit."

The result: last year Public Works outbid five contractors for the right to collect garbage in one section of the city, beating the next-lowest bidder by almost \$1 million a year. This will save taxpayers \$6.8 million over the life of the contract. "Morale among our employees skyrocketed," Jensen reports proudly. "We discovered that we can compete with the private sector."

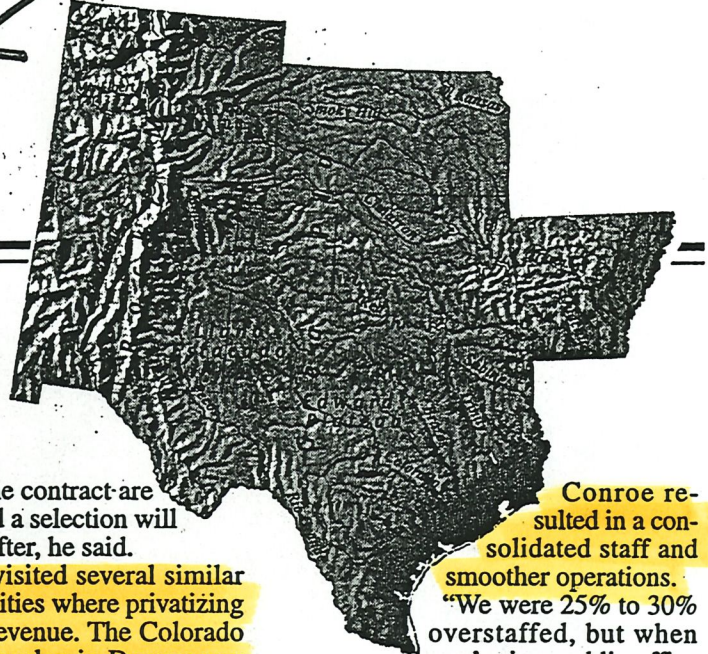
Since 1978, Phoenix has placed 43 major contracts up for bid—for such tasks as landfill operation, street-median maintenance, water-meter repair, cleaning of municipal buildings, and bill processing. City departments have won 15; private companies have won 28. But the real winner has been the taxpayers—to the tune of some \$3 million a year.

For Phoenix, contracting out quickly became part of a larger program to streamline bureaucracy. The police department was able to keep costs down by replacing uniformed officers with lower-paid police aides on routine duties such as traffic-accident investigation, thereby permitting officers to spend more time patrolling high-crime areas. City departments are asked to see if they can finance new programs without new funds.

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SOUTHWEST

ARTICLE 2



Ark. • Colo. • Kan. • N.M. • Okla. • Tex.

TRENDS IN THE REGION

Privatization Can Be Downgrade Vaccine

By Julie Carrick Dalton

While privatizing government services rarely enhances the credit ratings of debt issuers, it may redeem some municipalities in danger of rating downgrades, rating analysts said.

Movements to privatize have gained momentum across the country since the early 1990s, as governments find privatization can reduce labor costs by cutting unneeded jobs and reducing fringe benefits.

Especially in the Southwest, where unions are weaker, privatization faces little resistance and will probably increase, said Ken Gear, associate director at Standard & Poor's Corp.

When Tarrant County, Tex., privatized jail functions, the county did not save a substantial amount of money, nor has it improved its AA-plus rating from Standard & Poor's or its Aa1 from Moody's Investors Service. But services and efficiency of the jail improved, said Peter D'Erchia, a tax-based analyst with Standard & Poor's.

Although the county had been operating with about a \$23 million annual surplus, Standard & Poor's analysts noted a lack of cost-effective operations in jail management before

the privatization. The Corrections Department faces losing more revenue next month when the state cuts off payments for housing state prisoners in county jails, D'Erchia said.

"There are several counties who will have fairly large holes in their budgets," D'Erchia said. Tarrant County's move to privatize was a defensive ma-

Poe. Bids for the contract are due Aug. 25 and a selection will be made soon after, he said.

Poe said he visited several similar convention facilities where privatizing had increased revenue. The Colorado Convention Complex in Denver saw \$700,000 in savings last year as a result of privatizing, Poe said.

Conroe resulted in a consolidated staff and smoother operations.

"We were 25% to 30% overstaffed, but when you're in a public office it's hard to cut jobs and then try to run for office again and expect to win. This took it out of the political limelight," Thornton said.

"We were tarred and feathered locally, but nationally, we won awards," Thornton said, referring to the 1994 award given by the National Council for Public-Private Partnerships. The Hospital Authority now is privatizing its emergency medical services, Thornton said.

Based on the hospital's financial success, which resulted in \$29 million of initial savings, Thornton said he is optimistic that the emergency service privatization will save taxpayers \$2 million to \$3 million per year.

"I think government should be a purchaser of services. Private industry is a lot more creative and resourceful," Thornton said.

'There are several counties who will have fairly large holes in their budgets. ... If they didn't privatize, the rating would go down,' says S&P's Peter D'Erchia.

neuver and may have prevented a rating downgrade, he said.

D'Erchia said that in some rare instances privatizing can boost ratings.

"But it happens more often in the reverse," D'Erchia said. "If they didn't privatize, the rating would go down. It's about at least maintaining a rating."

Dallas is soliciting bids to privatize the Dallas Convention Center, which has been losing money consistently, said Convention Center director Frank

Privatizing would not affect the \$200 million in revenue-backed outstanding debt issued on behalf of the Convention Center, Poe said. But it would stem the tide of red ink; during the last fiscal year, the convention center lost \$1.1 million on revenue of \$3.5 million.

Ken Thornton, executive director of the Montgomery County, Tex., Hospital Authority, said the decision to privatize the Conroe Medical Center in

4-10

MARKET

Pickup in Activity Expected to Follow

Southwest Invisible Supply

Issuer and purpose	Amount	Approval status	Underwriter choice	Expected sale date
Arkansas State Development				

ARTICLE 3

HUD

①

U.S. Department of Housing and Urban Development
Office of Policy Development and Research



Delivering Municipal Services Efficiently

A Comparison of Municipal
and Private Service Delivery

Summary

A. PRINCIPAL FINDINGS

Eight local government services were studied. Data on the cost, level of service, scale of output, quality of service, management practices and technology utilization were obtained from ten cities contracting for each service and from ten cities providing each service with municipal employees. All cities were located in the Los Angeles Standard Consolidated Statistical Area. In all cases, the cost of contractor provided service included not only payments to the contractor but also municipal contract monitoring costs.

The eight services studied are: street cleaning, janitorial services (building cleaning), residential refuse collection, payroll preparation, traffic signal maintenance, asphalt overlay construction, turf maintenance, and street tree maintenance.

Exhibit 1 provides a definition of each of the eight services studied. Also indicated on this chart is the average percentage of municipal non-capital expenditures which the cities in the sample devoted to this service. Of the eight services studied here, refuse collection represents, at 4.2%, the greatest component of the average city budget, while payroll preparation, at 0.4%, represents the smallest component of the average city budget.

The basic goal of the analysis was to proceed in three steps, answering the following questions, one per step:

- **QUESTION #1:** Is there a significant difference in the cost of service delivery between contract and municipal cities, when the influence of the scale of operations and the level of service provided is removed?

ANSWER: For all services except payroll preparation, municipal service delivery is, on average, significantly more costly than private contractor service delivery. Municipal provision of service ranged from 37% (street tree maintenance) to 96% (asphalt overlay construction) more costly than contractor service delivery.

- **QUESTION #2:** Do differences in the cost of service delivery by contractors as compared to municipal employees arise because of differences in the quality of service provided?

ANSWER: No statistically significant differences in the quality of service provided by contractors as compared to municipal agencies was found for any service studied.

- **QUESTION #3:** What management or technology factors account for differences in the cost of service delivery (and, particularly, what factors could be implemented by a locality which did not wish to contract out)?

ANSWER: In comparison to municipalities contractors tend to: 1) require more work from their employees, offering equivalent salaries but less liberal vacation and leave; 2) use the least qualified

personnel able to perform each task; 3) use part time (not receiving full fringe benefits) labor wherever appropriate; 4) require that managers be responsible for equipment availability as well as labor availability; 5) allow first line supervisors hiring and firing authority; and 6) use a less labor intensive means of providing each service. These findings hold true across the services taken as a group. Additional findings pertaining to the individual services studied are outlined in Section F.

The preceding questions and answers provide but a glimpse of the findings of this project. Of obvious interest to local officials interested in evaluating how their city measures up are the basic data themselves. These data are presented in the following section.

B. SERVICE DELIVERY -- BASIC DATA

In this section, basic data are presented for each of the eight services studied. All cost data are for fiscal 1982. City officials may be interested in comparing the achieved efficiency (measured in non-monetary terms) in their city to that of the cities studied here. Additionally, comparisons of the level of service provided can often provide the starting point for an overall evaluation of service delivery.

Section #1 highlights data on unit costs, level of service, and quality of service. Section #2 shows how contract and municipal costs break down into such components as labor, depreciation, and fringe benefits; also presented here are comparisons of contractor and municipal wage and fringe benefit payments.

1. Cost, Level, and Quality of Service

For this project, it was sometimes necessary to define new measures of the level of service provided or the scale of output. For janitorial services, for example, the level of service was defined as the sum of the standard time (obtained from industry associations) which would be required to perform all cleaning services required/performed by the city, taking into account the frequency of each cleaning activity, divided by the number of square feet of floor space in buildings cleaned. This measure allows one to compare a city where janitorial services include floor cleaning, furniture dusting, window washing and kitchen cleaning to one where janitorial services consist of floor cleaning only. The sample average level of service for janitorial services is 34.04 minutes per thousand square feet. Street sweeping is a more straightforward example. Here, the level of service is the number of times per year streets are cleaned. The output variable is the curb miles swept, which equals curb miles swept times frequency of sweeping. Exhibit 2 defines the preferred scale and level of service measures for each service.

It is possible to define various measures of the efficiency of service delivery. An obvious measure is the cost per unit of output. Another attractive efficiency measure is the full time equivalent labor hours required per unit of output. These measures, while attractive, do not control for level of service.

EXHIBIT 7: Result of Cost Comparisons Holding Other Factors Constant

Service	Percent Difference		Variable Controlled For			Percent of total cost explained	
	MU-CO	CO	Scale	Level of Service	Quality Condition		
Street Cleaning	43%		Curb miles cleaned/year*	Times cleaned per year	Rating -- block faces	Retail sales/curb mile	86%
Janitorial	73%		Square feet in buildings to clean*	Standard time per square foot	Quality rating -- cleanliness	NA	92%
Refuse Collection (residential)	28-42%		Cubic yards of refuse collected	**Refuse/household	Quality rating (lids replaced, etc.)	Population/curb mile*	98%
Payroll	None		# of checks issued*	% salaried	% with errors	NA	83%
Traffic Signal	56%		# of intersections maintained*	# preventive maintenance visits/intersection/year*	# of items in need of repair	NA	93%
Asphalt Overlay Construction	96%		Tons of asphalt laid*	% with reinforcing material*	Rating (cracks, etc.)	NA	93%
Turf Maintenance	40%		Acres mowed*	# of activities*	Rating -- visual	% of area with no problems*	83%
Street Tree Maintenance	37%		# of tree trimming visits*	Weighted level of pruning*	Rating -- by arborist	# of activities performed	89%

*Variable is significantly related to total cost.

**All cities studied had once a week curb or alley refuse collection.