

PRIVATE ENTERPRISE REVIEW AND ADVISORY BOARD



Report to
Governor Jim Edgar
and
Members of the Illinois General Assembly

March 1, 1993



STATE OF ILLINOIS
EXECUTIVE OFFICE OF THE GOVERNOR
BUREAU OF THE BUDGET
SPRINGFIELD 62706

March 1, 1993

To Governor Jim Edgar and
Members of the Illinois
General Assembly

The Private Enterprise Review and Advisory Board, created by an Executive Order of the Governor, marks the first concerted effort to examine the issue of privatization in Illinois state government from a combined public and private perspective.

The Board's review of existing and new privatization and de-privatization opportunities in state government is a solid first step in studying the issue from a public-private perspective. The recommendations in this report should provide the groundwork for state government to continue evaluating the privatization and de-privatization potential of all new and existing state services and programs.

Because the board was comprised of both public and private members, and included representatives of the state's business community as well as the labor unions and employee associations representing state employees, there were divergent views on the issue of privatization. In this report, we have attempted to provide a balanced analysis of the issue and offer realistic recommendations for future action.

The Board's major findings and recommendations include the following:

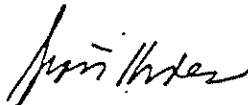
- **Privatization is not a new concept in Illinois as many areas of state government are already extensively privatized.** Included in this report is a list -- intended to be illustrative in nature -- of more than 250 privatized activities. In fiscal year 1992, more than 70 percent of the state's total spending was in the form of grants to either individuals or local school districts or payments to private sector entities for products or services. Board research found that some of the activities that are being considered for privatization in other states have been privatized in Illinois for decades.
- **The Board has identified more than 60 state government activities that it recommends be studied for privatization or de-privatization.** We believe that about half of the proposals are candidates for action during the remaining two years of this term, while the other half require longer-term study.

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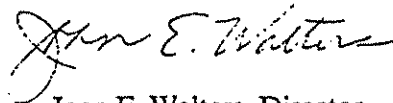
- State agencies should continually review new and existing programs to determine whether activities are candidates for privatization or de-privatization. The state also should continue to seek input on this issue from the private sector. A standard evaluation process as well as a standardized procedure for conducting the cost-benefit analysis of privatization and de-privatization proposals should be adopted. A recommended protocol for determining the privatization potential of activities is included in this report.
- Continual and thorough performance monitoring is essential to ensure that services provided by the private sector are cost-effective and meet high quality and performance standards. The state also must diligently monitor its purchasing and contractual practices to prevent anti-competitive or collusive practices and ensure high ethical standards are followed.
- The Board recommends the state continue to develop an employee relations strategy and dialogue regarding privatization. This approach should take into account the state's existing collective bargaining agreements and recognize the effects of potential displacement of public employees on the employees personally and as a potential indirect cost of privatization.

We are grateful to the members of the Board who, despite the limited time available, devoted many hours to this study. On behalf of the Board, we respectfully submit this report and hope that it provides the basis for future consideration of privatization and de-privatization of state activities, keeping in mind that economy and efficiency in state government operations are in the best interests of the citizens of Illinois.

Yours truly,



Scott Hodes
Attorney at Law
Co-chair



Joan E. Walters, Director
Bureau of the Budget
Co-chair



EXECUTIVE ORDER

NUMBER 12 (1991)

AN EXECUTIVE ORDER CREATING
A PRIVATE ENTERPRISE REVIEW AND ADVISORY BOARD

WHEREAS, economy and efficiency in the operations of government are expected and demanded by the taxpayers of our state; and

WHEREAS, it is incumbent upon government at all levels to examine and evaluate the means by which governmental services can be improved and made more efficient; and

WHEREAS, State government engages in an extensive level of privatization - government contracting with private enterprise for the provision of a specific governmental service. Highways and buildings are constructed by the private sector. Various social welfare services are provided by private, community-based organizations. Specialized computer programming and related data processing functions are performed for state government under contractual agreements; and

WHEREAS, governments at all levels should periodically assess those services it offers and determine whether a change should be made in the way those services are provided; and

WHEREAS, governments should also review the extent to which government policies, practices and programs interfere unduly with the conduct of private enterprise.

THEREFORE, I, Jim Edgar, order the following:

I. Creation

There is created a Private Enterprise Review and Advisory Board.

II. Membership

A. The Advisory Board shall be composed of 24 members, appointed as follows:

1. Six members, appointed by the Governor representing the business community of Illinois.
2. Six members, appointed by the Governor, representing public sector unions or employee associations.
3. Two members appointed by the President of the Illinois Senate, at least one of whom shall be an incumbent member of the Senate.
4. Two members appointed by the Minority Leader of the Illinois Senate, at least one of whom shall be an incumbent member of the Senate.
5. Two members appointed by the Speaker of the Illinois House of Representatives, at least one of whom shall be an incumbent member of the House.
6. Two members appointed by the Minority Leader of the Illinois House of Representatives, at least one of whom shall be an incumbent member of the House.
7. The Directors of the Department of Central Management Services, the Department of Commerce and Community Affairs and the Department of Labor; and the Director of the Bureau of the Budget.
8. The Governor shall designate a chairman from among those appointed

- B. The members of the Advisory Board shall serve without compensation; except that Board members may be provided reimbursement for travel and incidental expenses.
- C. At the direction of the Chairman of the Advisory Board, staff services shall be provided by the Department of Central Management Services, the Department of Commerce and Community Affairs and the Department of Labor.
- D. The Advisory Board shall first meet on or before January 15, 1992.
- E. The Advisory Board shall conduct its meetings in public and, as the Board deems necessary, convene appropriate public hearings.

III. Purposes

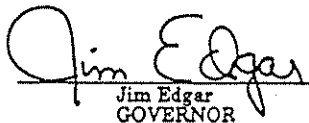
The duties of the Advisory Board shall include, but not be limited to the following:

- A. to study the impact of having private enterprise perform activities currently being done by state government where those activities are commonly provided by private enterprise; and, determine whether the state's interest would be better served through the performance of such activities by the private sector, taking into account possible cost savings, the need to lower the cost of government and the promotion of the growth and development of small business in this state.
- B. to study the impact of having state government perform activities currently done under contract to private sector business, and determine whether the state's interest would be better served through the performance of these activities directly by state government, taking into account cost savings and the need to lower the cost of government.
- C. to assess, through public hearings, surveys and other means, complaints that businesses, especially small business, have with the competitive practices of state government that may unduly interfere with matters traditionally the province of the private sector.
- D. to identify, for purposes of further study, those areas of local government operations that should be evaluated as to their potential for performance by private enterprise; and, recommend a process by which such evaluation should be undertaken.
- E. to provide a report to the Governor and the General Assembly on or before March 1, 1993, outlining the Board's activities, recommendations and proposed legislation.

IV. Effective Date

This Executive Order Number 12 (1991) shall be effective upon filing with the Secretary of State and shall be repealed upon the completion of the report by the Advisory Board.

October 1, 1991


 Jim Edgar
 GOVERNOR

PRIVATE ENTERPRISE REVIEW AND ADVISORY BOARD OVERVIEW

BACKGROUND

The Private Enterprise Review and Advisory Board was created by an Executive Order of Governor Jim Edgar. The Governor's mandate to the board was the following:

- To study activities being performed by the state to determine if it would be in the state's interest to have these activities performed by the private sector.
- To study state services that currently are being provided by the private sector to determine if it would be in the state's interest to have the activities performed by the state.
- To assess private sector concerns regarding state competitive practices that may interfere with traditionally private sector matters.
- To identify for further study areas of local government operations that should be evaluated for their privatization potential.

The board held its first general meeting on November 5, 1992, in Chicago. In order to meet the March 1, 1993, deadline for providing a report to the Governor and the General Assembly, it was determined that the Board would not attempt an exhaustive study of the privatization issue, but would instead lay the groundwork by establishing a protocol for state agencies to use when evaluating the privatization potential of programs and services in the future. The Board focused its study of privatization on state agencies rather than local governments. Its review was conducted in conjunction with the fiscal year 1994 budget process, and was limited to code departments and other agencies under the Governor.

The Advisory Board consisted of both public and private members, with representatives from the state's business community and the labor unions and employee associations representing state employees. Board members were divided into six subcommittees that match the subcabinet groupings used in the annual budget process: Economic Development, Environment, General Government, Human Services, Public Safety and Regulation. These subcommittees were organized both to provide balance between business and employee interests and to allow board members to serve in an area in which they had a special interest or expertise.

Each subcommittee examined existing privatization in state government and the unique privatization issues relative to the subject area. After the subcommittees completed their work, their recommendations for increased privatization or de-privatization were put before the full board for questions, comment and approval.

INTRODUCTION

The creation of the Private Enterprise Review and Advisory Board is the first concerted effort by Illinois state government to look at the issue of privatization from a combined public and private perspective. Across the nation, the federal, state and local governments are studying the benefits and risks of privatizing services as part of an effort to improve the quality of service to citizens and operate within severely constrained budgets.

At the same time that many state governments are being challenged to downsize and become more efficient and cost-effective, the public also is demanding services that are more customer-oriented. Privatization is one of many management tools that states are using in an effort to meet these goals.

The word privatization is used to describe a wide range of public and private sector relationships. The major forms of privatization include:

- Contracts--A government contracts with a for-profit or not-for-profit private organization to provide a public service. This is, by far, the most commonly used form of privatization in the United States.
- Service Shedding--A government stops providing a service and every aspect of the service is turned over to the private sector.
- Sale or Lease of Assets--Public assets, such as real estate, are sold or leased to the private sector.
- Franchises--A government grants authority to a private sector firm to provide a service.
- Vouchers-- The government pays for the service by issuing coupons or tickets to individuals for the purchase of goods or services from the private sector.
- Subsidies/Grants--A public body pays private firms to help cover the costs of providing services.
- Partnerships--Public and private sectors form a working relationship to provide a public service.
- Deregulation--The government stops regulating a service. It then encourages private or no regulation of the service.
- Volunteers--The state relies on volunteers to provide all or part of a government service.
- Self Help-- Private sector groups take over a government service or asset for their own benefit.

The various forms of privatization differ in the relationship between the public and private sectors, and the degree to which the private sector becomes involved in delivering the public service.

Privatizing government services can have advantages, including:

- Privatization can reduce government costs.
- Privatization can increase government efficiency.
- Privatization can result in better quality services.
- Privatization can be a source for innovative ideas and additional services.
- Privatization brings the concept of competitiveness into the public sector.
- Privatization can improve government services by encouraging a focus on the customer.

Privatization can also imply risks or disadvantages:

- The private sector may not be qualified to provide the needed service.
- The private sector may want to provide only the most profitable portions of a particular service.
- The private sector may not always operate more efficiently than the public sector.
- Certain programs involve essential government functions that should remain under the direct control of the government.

- The state runs the risk of becoming dependent on a private contractor.
- The state must maintain adequate oversight of a service even when it entrusts provision of a service to the private sector.
- Privatizing a service may create an artificial constituency for its continuation.
- Privatization savings may come at the expense of employees in the form of reduced benefits and possible loss of employment.

In addition, there are a number of issues that determine whether privatizing a particular service or activity is practical. The feasibility of changing state or federal statutes that dictate how funds can be spent or how programs are operated must be considered. Privatization actions that involve the displacement of employees must take into account the need to uphold collective bargaining agreements with the unions representing state employees. Finally, any realistic review of privatization must include consideration of political issues and concerns of the constituencies that will be affected if the delivery of a service moves from the public to the private sector, or vice-versa.

PRIVATIZATION IN ILLINOIS

Privatization has had a long history in Illinois. Several programs have been successfully privatized for more than 40 years. Appendix I is a list of more than 250 state government activities that are privatized in some way. This list, which is intended to be illustrative in nature and does not include all state agencies, includes activities that are performed by a mixture of private for-profit and not-for-profit entities. The vast majority of the services are performed under contract; however, vouchers, volunteers, service shedding, public/private partnerships, and intergovernmental agreements are all employed in Illinois' service delivery system. In fiscal year 1992, more than 70 percent of the state's total spending was in the form of grants to either individuals or local school districts or payments to private sector entities for products or services.

During its study, the board reviewed privatization proposals under consideration by many state and local governments. Because local governments provide a large array of direct day-to-day services, such as trash pick-up, many municipal governments are studying alternative methods of providing those services. At the state level, the proposals revealed that many activities being studied for privatization in other states, such as the sale of alcohol, have been privatized in Illinois for years, if not decades.

Examples of successful privatization include highway construction, which the predecessors to the Department of Transportation have privatized since 1910. In addition, there is a long tradition of supporting human service delivery at the local level by community-based entities using a combination of state, local and private funds to supply services as close to human needs and problems as reasonably feasible.

The board's review also identified areas of state government that are less adaptable to privatization. In public safety agencies, such as the Departments of Corrections and State Police, privatization increases risk and liability. Because these agencies are charged with protecting the public, a high level of ethics, commitment and training is required. Standardization is essential to protect the constitutional rights of the individual and minimize the risks associated with the use of force. Some skills are so specialized that the agencies cannot afford to relinquish control or substitute personnel. Continuity of services also is

essential to preserving public order. Some functions, such as criminal investigations, are so critical that no interruption in service can be tolerated.

Regulatory agencies represent another area of state government with sensitive functions that are not easily privatized. These agencies examine and apply statutory requirements to a variety of entities, responsibilities that are sensitive and specialized and not conducive to traditional privatization. Agencies such as the Departments of Labor and Human Rights routinely investigate the private sector, making privatization problematic.

PRIVATIZATION AND PUBLIC EMPLOYEES

A major issue that must be addressed in any privatization study is the impact of privatizing services on public employees. Recent efforts at making state government operate more efficiently within available resources have been accomplished within the framework of the current collective bargaining agreements and, in some cases, in conjunction with organized labor.

The downsizing of government has been approached cautiously in an effort to minimize the negative impact on state employees by reducing headcount through attrition whenever possible. When layoffs were implemented, labor and management cooperated to aggressively enforce contract provisions and to offer vacant positions to qualified employees. On two occasions, the administration has worked closely with labor to pass Early Retirement legislation, which has resulted in reduced current costs and provided a benefit to public employees.

As a part of its future consideration of privatization issues, the state must continue to develop employee relations strategies. For example, many states and municipalities have contracting provisions that require public employees to either be the first hired by the private contractor or be reassigned in another department. The state should also consider targeting training monies to state employees who are losing their jobs as a result of privatization to assist them in finding other employment.

In assessing the privatization potential of an activity, an agency must take into account the indirect or hidden costs of privatization that may occur when employees lose their jobs or are moved to private sector jobs with lower salaries and reduced benefits. Failure to address these issues may result in the state saving money in one area but spending much larger amounts for public assistance, Medicaid and other related programs.

Other employee relations strategies that have been used in the private sector include issuing severance pay, bonuses and gainsharing. These strategies also should be considered by the state.

FINDINGS AND RECOMMENDATIONS

Agencies should continually review new and existing programs for privatization potential. The board's review determined that successful privatization is highly situational. The cost-effectiveness of privatizing an activity is influenced by a variety of factors including competition, economies of scale and such hidden government costs as contract administration, service planning and contract monitoring.

State agencies should continually explore programs that can economically be privatized or deprivatized. In addition, all new initiatives should be evaluated to determine whether services can best be provided by the public sector, the private sector or some combination of the two.

Performance monitoring is critical to successful privatization. When a program or activity has been privatized, the state agency involved remains responsible for ensuring that the private sector performance meets expectations. In addition to careful performance monitoring by each agency, the administration should closely track privatization activities across state government, including the relative amounts of such activity, private sector performance and monitoring results. This measure, among others, should be used to assess trends and identify targets for management review.

Among the options the state should explore is the "petition of interest" process through which private firms are encouraged to make unsolicited bids to provide some state services more cost-effectively than they are being delivered by the state. The "petition of interest" process has been considered in several other states as a means of encouraging innovation and competition in public service delivery.

When contracting with private sector firms to provide services, the state should make a greater effort to protect itself in the event a contractor defaults in performance. For example, contract language could require that private firms back their performance guarantees with security or include penalty and hold harmless provisions to ensure that service providers are held responsible for meeting performance standards.

In addition, the state must diligently monitor its purchasing and contracting procedures to prevent anti-competitive or collusive practices. Competitive bidding and competitive negotiation are two methods that can be used to ensure that the state receives the best value for its expenditure among various providers. The state also must take steps to ensure that state procurement practices meet high ethical standards and avoid favoritism or conflicts of interest.

A standard evaluation process for considering privatization proposals and measuring cost-effectiveness is required. The board recommends that the protocol in Appendix II be used to evaluate the privatization potential of state services. Further, a standardized procedure for conducting the cost-benefit analysis of privatization should be developed to allow for comparisons of public and private sector direct and indirect costs, risks and advantages and to provide a mechanism for evaluating proposals and bids. The evaluation of indirect or secondary costs should include an assessment of employee relations issues that arise when employees are displaced, such as unemployment compensation, health care, and job retraining. If ignored, these issues can defeat all efforts at more efficient and economical government.

CONCLUSION

Conclusion. The report represents a solid first step in studying the issue of privatization from a joint public and private perspective. A by-product of the study is a strong message to state

agencies to become more efficient and more aggressive in considering options for future privatization or de-privatization. The recommendations are realistic steps that should be taken by the administration to establish a consistent process for identifying programs that have potential for privatization or de-privatization and for weighting the accurate cost-effectiveness of those actions. As Illinois considers future proposals for the privatization or de-privatization of state services, it should continue to solicit public input.

Cost Savings from Privatization. Many of the privatization studies from other states include estimates of the cost savings from privatization. However, because this study recognizes that measuring the cost savings from privatization is a difficult and problematic process, the board has opted not to include speculative cost savings figures in this report. Those savings figures should be calculated by each agency and the Bureau of the Budget in conjunction with a thorough cost-benefit analysis.

Additional privatization opportunities exist. The following table lists the activities and programs that the board reviewed for privatization. It is clear that additional public services can be privatized. It is equally clear that associated with many of these services are issues involving employee relations, political resistance, state or federal laws and other considerations that necessitate further study.

As a result, the board has identified a list of activities that it recommends the Governor consider for privatization or de-privatization during the two remaining years of this term. These are activities that, in the judgment of the board and the agencies, are realistic proposals that warrant an immediate cost-benefit analysis to verify the potential for successful privatization or de-privatization. The remaining activities on the list are proposals that, for a number of reasons, will require further study before it can be determined whether privatization is possible and beneficial to the state.

Following this list are the subcommittee reports, which provide additional information about current privatization activities and the subcommittees' specific recommendations for future privatization.

ENVIRONMENTAL SUBCOMMITTEE

Abandoned Mined Lands Reclamation Council
Department of Agriculture
Department of Conservation
Department of Energy and Natural Resources
Department of Mines and Minerals
Department of Nuclear Safety
Division of Water Resources (Department of Transportation)
Environmental Protection Agency
Pollution Control Board

Subcommittee Members

Cedric Blazer, President
Zenith Cutter Company
Rockford

Senator William F. Mahar
Orland Park

Department Liaisons

Mary A. Gade, Director
Roger Kanerva
Illinois Environmental Protection Agency

ENVIRONMENTAL SUBCOMMITTEE

SUMMARY OF REVIEW PROCESS

The subcommittee met on December 11, 1992, at the Environmental Protection Agency's office in Springfield. Each agency presented highlights regarding current use of privatization and presented potential privatization proposals. This dialogue generated a number of interesting points, concerns and questions. For example, a question was raised about the percentage of each agency's budget that is privatized.

A draft subcommittee report was distributed to the group and the environmental agencies on December 22, 1992. Another staff session was held on January 5, 1993, to discuss the draft report. Final responses were received by January 8, 1993, and the final report was completed shortly thereafter.

SUMMARY OF CURRENT PRIVATIZATION

The information provided by the nine environmental agencies clearly shows that considerable privatization has taken place. The following table presents a summary of privatization activities:

<u>Agency*</u>	<u>Privatization Types</u>			<u>Public/Private Partnership</u>
	<u>Contract</u>	<u>Service Shedding</u>	<u>Volunteers</u>	
AMLRC	10			
DOA	15			1
DOC	6	4	1	
DENR	13	3		
EPA	14	2	1	2
DMM	15			
DNS	7			
PCB	5			
DWR	<u>12</u>			
	97	<u>9</u>	<u>2</u>	<u>3</u>

The use of contractual arrangements with the private sector is, by far and away, the most frequently used approach. Each one of these agencies has contractual relationships with private parties. It is interesting to note, however, that four agencies also have some experience with other types of privatization. Specific listings for each agency are provided in the Appendix I.

*Abandoned Mined Lands Reclamation Council (AMLRC)
Department of Agriculture (DOA)
Department of Conservation (DOC)
Department of Energy and Natural Resources (DENR)
Department of Mines and Minerals (DMM)
Department of Nuclear Safety (DNS)
Division of Water Resources (DWR)
Environmental Protection Agency (EPA)
Pollution Control Board (PCB)

The budgetary implications of these activities are more complicated to describe. The following table presents a summary of privatization as a percent of the budget for each agency:

Privatization as Percent of Budget

<u>Agency</u>	<u>FY92 Actual Expend %</u>	<u>FY93 Projected Expend %</u>
AMLRC	87.5	86.4
DOA	2.7	2.7
DOC	8.2	7.9
DENR	10.0	10.0
EPA	28.7	31.8
DMM	10.7	17.6
DNS	40.5	33.0
PCB	15.4	16.4
DWR	32.0	32.0

For the environmental agencies, the privatization as a percent of each budget varies widely from a low of 2.7 percent to a high of 86.4 percent for fiscal year 1993. The median percentage is 17.6 percent. However, nearly half of these agencies show privatization that exceeds 30 percent of the annual budget. As a whole, one could perhaps say that the environmental area is moderately privatized. In making this generalization, we must emphasize the variable nature of this information and the fact that agencies differed somewhat in what was included and excluded from this budget analysis.

Characterization of "savings" due to these privatization activities is even more challenging. Certain definitional issues need to be addressed to present this information. For example, it would seem that true savings would come from an application of privatization to an existing activity. On the other hand, where privatization is already in place or where advance planning leads to privatization, certain operational costs may be avoided. The matter of contributions from private parties also adds complexity to the evaluation of privatization benefits. With these points in mind, the following information is presented to illustrate the nature of such benefits for fiscal year 1993:

<u>Agency</u>	<u>Costs Avoided* (\$000)</u>	<u>Contributions (\$000)</u>
DOA	2,000.0	
DOC	2,312.0	
DENR	384.7	
EPA	868.7	225.0
DNS	<u>300.0</u>	
	5,865.4	<u>225.0</u>

*Note - Estimation of these amounts does not mean that agencies have appropriations that will not be used. Rather it shows what supplemental funding would be necessary to cover operational expenses if privatization was not available.

The distinctions we have raised may be useful for any future effort to keep track of privatization. Both costs avoided and contributions seem appropriate as benefits due to privatization. What one then chooses to describe as "savings" to the state becomes a matter of judgment.

In one instance, the Environmental Protection Agency reported that contracting with private labs for analyses cost about two to three times more, on a direct cost basis, than similar work done within its own lab operation. The agency began contracting with private labs in fiscal year 1985. This approach was necessary because of new, fast-track demands relating to cleanup projects and facility limitations that prevented timely expansion of the organics lab operation. Peak use of the private labs took place in fiscal year 1987 when some \$2.6 million in general revenue funds was spent for analyses. By fiscal year 1989, Southern Illinois University's new organics lab facility in Springfield was in operation and a decision was made to begin phasing down the use of contract labs. Comparative cost evaluations clearly showed that the private labs were significantly more expensive. Such cost comparison is complicated, however, by different ways of accounting for fixed facility expenses, overhead and utilities. These differences aside, the agency still finds that the private sector lab work is much more expensive on a per analysis basis. Since the inception of the contract lab program, the agency has spent about \$8.66 million for analysis of some 14,671 samples. The funding breakout for these expenditures is as follows:

<u>Fund</u>	<u>Amount (\$000)</u>
General Revenue	4,915.0
Hazardous Waste (fees)	1,708.0
Federal	2,039.0

From this consideration of experiences with privatization, one can extract a number of findings and concerns. These matters are presented in the last section of this report.

PRIVATIZATION PROPOSALS

The environmental agencies identified 18 potential privatization proposals. The following table presents a summary of the types of privatization that could be involved:

<u>Type</u>	<u>May be Viable</u>	<u>Do not appear viable</u>
Contractual	7	2
Service shedding	6	1
Public/private partnership	2	

Once again, contractual arrangements are the most frequently identified approach, but by a much smaller margin than for current privatization. Along these lines, the agencies determined that multi-agency cooperative contracting should be considered and pursued where appropriate. The specific proposals for each agency are listed in a summary table on page 29. In some cases, a determination was already made that the proposal was not viable. For example, privatization of fish hatcheries does not appear to be workable at present. This proposal was mentioned in the Michigan study, but recent contact with Department of Natural Resources officials in that state indicates that no efforts to privatize these facilities are underway.

The agencies made an effort to distinguish between proposals that might be viable in the near-term (fiscal year 1994-95) and proposals that appear to need further evaluation or analysis. Seven of the proposals were near-term, while nine appeared to require further study.

The amount of "savings" to be generated by these proposals is difficult to determine at this time. For one thing, more evaluation is necessary for agencies to finally determine the viability of some proposals. In other instances, detailed cost analyses are not yet available. However, some preliminary indications are that some savings or cost avoidance would be achievable. The following table presents several examples of favorable annual cost outcomes relating to privatization:

<u>Agency</u>	<u>Proposal</u>	<u>Costs Avoided</u> <u>(\$000)</u>	<u>Savings</u> <u>(\$000)</u>
DOC	Put & Take Hunting	5.0 to 25.0	
EPA	Penalty collection		18.8 to 37.5
DNS	Mechanics training	500.0+	
	Low level radioactive waste tracking system	300.0	

During the dialogue process, the agencies also identified a need for a generic procedure for evaluation of privatization proposals. As a result, an evaluation protocol was developed and agreed to. This protocol is discussed in Appendix I.

DE-PRIVATIZATION PROPOSALS

Phase-out contract labs - In fiscal year 1994, the Environmental Protection Agency could save about \$131,000 in federal and hazardous waste fee funds by phasing out contracts with private laboratories. Such action would necessitate the addition of five employees and associated support costs of \$355,000. Performance of this service by private labs costs about \$486,000. At this point in time, the potential savings is greatly reduced because the bulk of the private lab work has already been shifted back to the agency, and the residual represents a special type of work that is more resource intensive.

Lockport and SOIC art galleries - In fiscal year 1993, private funds are being raised to keep these galleries in operation. The Department of Energy and Natural Resources prefers to view this as a temporary arrangement since resources must be devoted to fund raising, and it will be difficult to maintain quality staff and collections under highly uncertain funding conditions. Private sector supporters still see this as appropriate for support with state funds and, thus, closure is likely if some support is not restored. About \$384,700 is necessary for annual operation of these facilities.

FINDINGS AND RECOMMENDATIONS

Based on the information provided by the environmental agencies and the dialogue that took place, the following findings are presented:

Privatization has worked - Experience has shown that privatization can and does work. Agencies have successfully used privatization for a wide variety of services. The pros and cons of doing privatization usually come down to a case-by-case analysis. In some cases, however, it may not make good sense to pursue privatization.

Performance monitoring is critical - On-going success with privatization is closely linked with good performance monitoring. The public sector remains responsible for ensuring that private sector performance meets expectations. In this regard, staff resources are still needed for policy functions, contract administration and oversight or other types of operational interfaces with private providers. In some instances, these responsibilities may be quite substantial and critical for a successful outcome.

User fees and privatization - For regulatory agencies, it may be more cost-effective to adopt fees for public services than to leave service delivery up to the private sector.

New privatization opportunities are out there - It seems pretty clear that more opportunities for privatization are within sight. In some instances, more market development may be necessary to bring private parties along.

Cost savings are often unrecoverable - An agency that generates cost savings, especially for general revenue, usually does not benefit by recovery of any funding. Thus, an important incentive for generation of savings is missing. In contrast, private companies usually get the benefits in a direct way.

Cost sensitivity for auditing - In some instances, audits of certain activities may be more expensive than makes sense relative to the cost of the activity.

Generic evaluation procedure - It would appear to be useful to have a generic procedure for evaluation of privatization proposals. Such a procedure should be relatively simple and easy to use. The judgmental nature of such evaluations should be recognized as well.

Therefore, the Environment Subcommittee makes the following recommendations for consideration by the Advisory Board:

Potential privatization and deprivatization proposals developed by the environmental agencies merit continued consideration and implementation if shown to be cost-effective. The potential proposals should be fully evaluated and implemented when it makes sense to do so.

An evaluation procedure should be developed and used to ensure that privatization proposals are carefully considered. The evaluation protocol in Appendix II, which was developed by the environmental agencies, may be suitable for this purpose.

Further emphasis should be placed on selective tracking of privatization activities including the relative amounts of such activity, private sector performance and performance monitoring results. This report presents percentages of annual operations budgets that are privatized as a relatively simple way of generally indicating the extent of an agency's use of privatization. This measure and others could be used to assess trends and

identify targets for management review. In other words, one sure way to enhance awareness and focus attention on an issue is to establish measures and progress reporting provisions. The intent should be to create a useful management tool and not to generate burdensome procedures or excess paperwork.

Consideration should be given to developing means for agencies to receive some recognition for or benefit from cost savings that are generated by practices such as privatization. We recognize that funding reductions are sometimes the motivation for pursuit of new service delivery arrangements. In other instances, however, taking the initiative to spend less may simply translate into an Agency getting less in the next budget cycle. This dynamic needs to be turned around in some fashion so as to create an incentive for agencies to strive for greater efficiencies.

HUMAN SERVICES SUBCOMMITTEE

Department on Aging
Department of Alcoholism and Substance Abuse
Department of Children and Family Services
Department of Mental Health and Developmental Disabilities
Department of Public Aid
Department of Public Health
Department of Rehabilitation Services
Department of Veterans Affairs
Guardianship and Advocacy Commission

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Center, Inc.
Olympia Fields

Harry J. Seigle, President
Seigle's Home & Building Ctrs.
Elgin

Department Liaisons

Jess McDonald, Director
Bobby Wilkerson
Joe Bonafeste
Department of Mental Health & Developmental Disabilities

SUMMARY OF CURRENT PRIVATIZATION

During the subcommittee's study, it became apparent that considerable privatization is already in place in the human service agencies, and that publicly-funded human services generally are not provided directly by public employees. The vast majority of human services in this state is either distributive (funds provided directly to clients such as welfare payments) or decentralized through contractual grant arrangements with local community not-for-profit or for-profit agencies. These agencies provide a range of services including consulting, child welfare services, aging services, residential services and health care services.

There is a long tradition in Illinois of supporting service delivery at the local level by community-based entities using a combination of state, local and private funds to supply services as close to human needs and problems as reasonably feasible. Table A below illustrates that a considerable percentage of the human service agencies' budgets are used to provide direct benefits to citizens or to buy privately supplied services for citizens.

Table A

Agency*	FY93 Budget (\$ in millions)	% Contractual/ Pass Through
DMHDD	\$950	47%
DASA	\$146	95%+
DCFS	\$701	50%+
DPA	\$6,413	93%
DPH	\$376	75%
DORS	\$261	50%+
DOA	\$169	97%
DVA	\$42.8	9.4%
GAC	n/a	n/a

The general trend in privatization for human services agencies has been and continues to be primarily in the areas of direct client services. Agencies that own and operate hospitals, developmental centers, residential facilities, and/or nursing facilities are studying the advantages of contracting for support and craft-type services. Human service agencies are reviewing services that are currently provided by the private sector to compare the costs and quality with services provided by public employees.

- *Department on Aging (DOA)
- Department of Alcoholism and Substance Abuse (DASA)
- Department of Children and Family Services (DCFS)
- Department of Mental Health and Developmental Disabilities (DMHDD)
- Department of Public Aid (DPA)
- Department of Public Health (DPH)
- Department of Rehabilitation Services (DORS)
- Department of Veterans Affairs (DVA)
- Guardianship and Advocacy Commission (GAC)

Further, there is a strong disposition by the human services agencies to consider further privatization of governmental services. However, agency directors indicated that additional privatization will challenge agency management to adequately monitor the quality and cost of service provided by the private sector.

While privatization of activities in the human service agencies generally reduces costs, promotes efficiency, enhances quality and helps localize service delivery, it also raises a number of issues that must be addressed. These issues include employee relations and the need to comply with the state's collective bargaining agreements, as well as local public concern about the operation of a state facility, which may represent a significant source of stable jobs in a small community.

RECOMMENDATIONS

- The administration and the General Assembly should cooperate to promote effective use of privatization as a tool in improving the quality and cost-effectiveness of state services.
- The Department of Central Management Services should serve as a resource for agencies considering privatization. The department should work with agencies to ensure that competitive bidding practices are followed and should assist agencies in monitoring the performance of private sector providers.
- The administration and the General Assembly should review regulatory prohibitions barring "for profit" corporations and entities from providing their service, work or product to the state. For example, for-profit hospitals or clinics cannot provide services for the Department of Alcoholism and Substance Abuse.
- In addition, the subcommittee recommends that human service agencies investigate the privatization potential of the following activities:

Department of Mental Health and Developmental Disabilities

- Laundries
- Dietary services
- The department should study the Massachusetts experiment in purchasing services through local hospitals in areas where state facilities are underutilized.

Department of Children and Family Services

- Medicaid certification support services
- Licensing services
- Protective services

Department of Public Aid

- HMO utilization should be increased
- Benefit payments should be processed electronically
- Medical claims processing
- Collection of child support payments

Department of Public Health

- Laboratory work
- Record-keeping and microfilming

Department of Veterans Affairs

- Operation of the new Anna Veterans' Home

APPENDIX II

PROPOSED EVALUATION PROTOCOL FOR PRIVATIZATION PROPOSALS

To evaluate the potential for privatizing a specific state service or program, agencies should consider four factors in a sequential review process:

1. Nature of service rendered - Does the type of service being considered lend itself to privatization?

Favors No Change:

- Service is a core function of government (policy making, police powers, etc.) or legal barriers are applicable.
- Task is uncertain and prone to revision.
- Value of output is hard to measure.
- Unit of government is most knowledgeable about accomplishing task and transfer of such expertise would be difficult.
- Process is as important as the result.

Favors Privatization:

- Specific performance expectations can be set forth.
- Results are more important than the process.
- Outputs are easy to measure.
- Problem providers can be readily replaced.
- Activity is short-term or intermittent in nature.
- Private sector has specialized expertise or skills that give operational efficiency and effectiveness.
- Activity has been successfully privatized in other states.

Query: Does this service appear to be suitable for privatization? If yes, continue the review process with factor 2.

2. Private provider situation - Are there sufficient interested and qualified private providers to generate a market response? Is there suitable capability in the private sector to deliver the service? Does competition among providers seem possible?

Query: Do private providers appear to be willing and qualified to handle this service? If yes, continue the review process with factor 3.

3. Service characteristics and Cost Factors - What effect is expected on the quality and timeliness of service? Could one expect to generate cost savings or a cost that is reasonable? In some instances, this information might not be available until bids are submitted in response to a request for proposal. Can costs be suitably compared between public and private sectors?

Query: Do the service characteristics appear to be comparable or better for privatization? If yes, continue the review process in factor 4.

4. Conversion impacts - How would a change affect public employees? Are there legal complications, risks that might develop or other control problems? How would privatization affect the extent of public expertise? Is adequate performance monitoring and administration available?

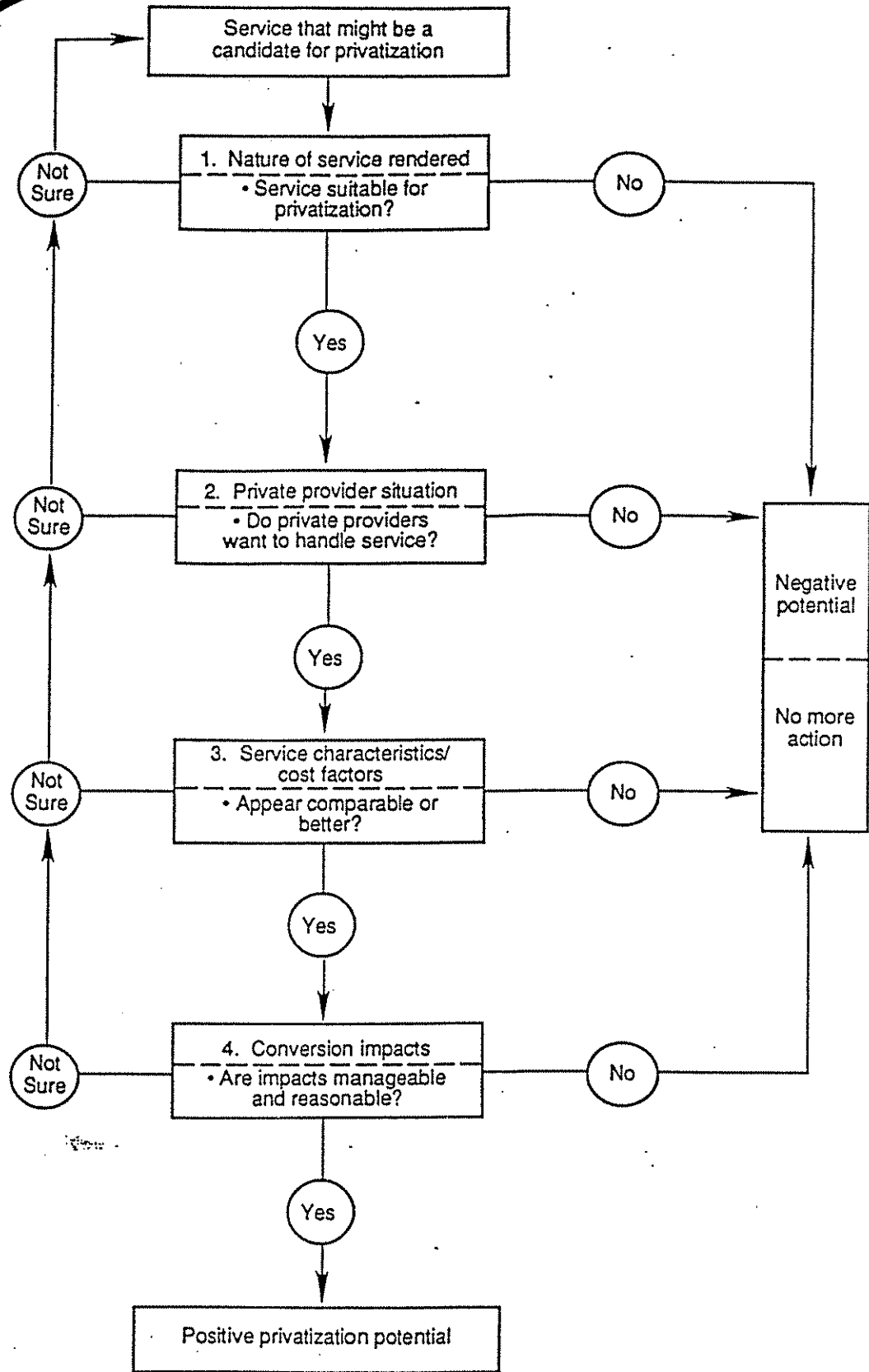
Query: Do the conversion impacts appear to be manageable and reasonable: If yes, complete the rating process.

A proposal that clears each factor could be reviewed as having positive potential for privatization. If a proposal appears negative for a factor, then it could be viewed as having negative potential or as needing some further refinements to address the concern(s). The attached flowchart shows how this evaluation process would operate.

This protocol is the first step in what should be a more lengthy process to determine the cost-effectiveness of privatizing or de-privatizing a service, and to fully analyze the advantages and risks of such an action.

PRIVATIZATION

FLOW CHART

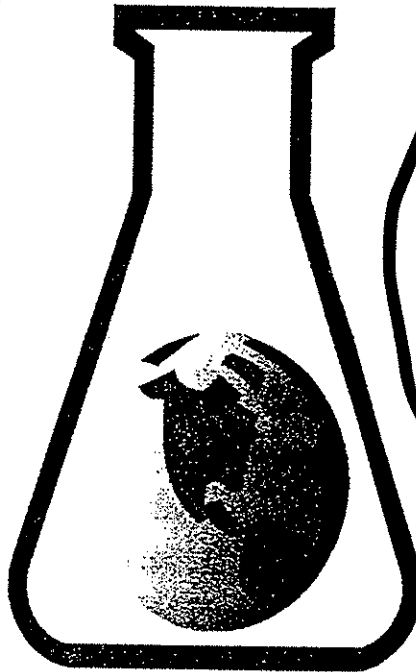


DRAFT

DO NOT
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OPERATIONS REVIEW
DEPARTMENT OF ENVIRONMENTAL PROTECTION
BUREAU OF LABORATORIES

PENNSYLVANIA



Final Report
availability
Pending
Contact H.Q.
SP.

OFFICE OF ADMINISTRATION
BUREAU OF MANAGEMENT SERVICES

JANUARY 1996

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EXECUTIVE SUMMARY

A. Introduction

In June of 1995, the Department of Environmental Protection (DEP) Deputy Secretary for Management and Technical Services requested a review of the Bureau of Laboratories (BOL). The request was for the review to focus on BOL's: cost competitiveness with private laboratories; organizational structure; operational efficiency, including the effectiveness of communications with the program and regional offices; and management information systems support.

Specific objectives of the review included the following:

- Analyze BOL operations that support DEP programmatic functions.
- Compare the cost to DEP to perform certain selected analytical tests with that of fees quoted from private laboratories.
- Recommend a course of action regarding the option of privatization.
- Recommend changes to help improve the management of BOL resources.

B. Background Information

BOL provides chemical, microbiological, and radiochemical analysis of samples collected and submitted primarily by field collectors assigned to the DEP regional offices. The results from the analytical work are used by the programmatic offices to carry out the regulatory and permit issuance functions of the Department. BOL also certifies approximately 300 private environmental laboratories, most of which do testing under the drinking water program. BOL was established in 1980 by combining five existing separate laboratories in the Bureaus of: Water Quality, Community & Environmental Control, Air Quality, Occupational Health, and Radiation. In addition to the centralized laboratory, two satellite laboratories were established to do water quality analysis in Pittsburgh and Erie. The Pittsburgh laboratory was eliminated in 1983, but the Erie laboratory remains in existence and was established in SFY 1986-87 to handle all of the soil and waste testing for the Department. The BOL also maintains two mobile analytical units to provide on-site analyses upon request throughout the Commonwealth.

The annual budget for BOL has remained in the nine to eleven million dollar range over the past five years. The BOL employs approximately 100 permanent staff, most of whom are located at the Evangelical Press Building (EPB) on Third and Reily Streets in Harrisburg. The EPB is an antiquated structure, circa 1917, and does not provide the type of working facility needed to perform environmental analytical testing. Plans for constructing a new laboratory facility were submitted by DEP on May 1, 1995 to the Department of General Services (DGS) for final approval.

Approximately 95% of the work done by BOL supports the environmental protection programs in DEP. Approximately 5% of the BOL's workload supports programs associated with the Department of Conservation and Natural Resources (DCNR), and a minimal amount of testing is conducted for other agencies upon request. BOL interacts with DEP program personnel mainly through the DEP regional offices. Samples are shipped overnight to Harrisburg and Erie by courier, and lab results are available via computer over telecommunication lines to all DEP regional offices.

C. Methodology

Multiple interviews were conducted with the Bureau Director, the two Division Chiefs, ten Section Chiefs, and the Administrative Officer for the Bureau. Group meetings/interviews were also held with non-supervisory staff from each of the sections within the two analytical divisions. To assess client satisfaction, interviews were also conducted with DEP central office program staff that most frequently interact with the BOL. Additionally, staff from each regional and district mining office were surveyed to ascertain their degree of satisfaction with services provided by the BOL. Also, an analysis of BOL's workload for FY's 1991-93 was prepared.

A cost analysis comparing the cost to DEP to perform selected analytical tests with quoted fees from three private laboratories was performed. Sixteen tests accounting for approximately 7.5% of the total tests conducted in calendar year 1994 were selected for comparative analysis. With the exception of the mobile analytical unit section, the tests selected represent all of the analytical sections within BOL.

D. Findings

The operational review of BOL revealed the following major findings:

- The current costing methodology does not provide reliable detailed financial data needed to make business related decisions. BOL's average cost per hour to perform analytical testing was *estimated* to be \$105/hour instead of the \$124/hour figure that was calculated by the laboratory.
- The cost comparison revealed that, on an *individual test basis*; the laboratory is cost competitive on many tests, particularly with respect to the organics tests that were reviewed. Some of the tests selected, e.g., TCLP (volatiles and metals) were found to be less costly if performed by a private laboratory. The *total cost* to DEP to perform *all* of the tests that were selected for comparison was estimated to be \$19,403.00 *less than* the least expensive fee that was quoted. However, for those *individual tests* that were identified as more expensive for BOL to perform, there is a *potential* savings of \$366,204.00 if contracted out.
- The Evangelical Press Building has severe limitations as a laboratory facility. This is affecting operational efficiency and employe morale. The need exists to construct a new facility. Initial analysis indicates this would be less costly than paying the current rent to

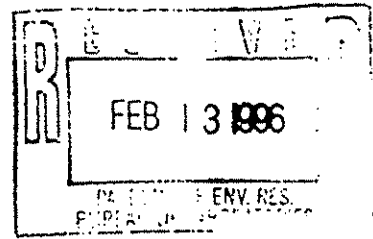
house the DEP and DCNR laboratory facilities. However, the use of private laboratories for testing needs to be resolved quickly since this decision may impact the size of a new facility or lead to alternatives other than new construction.

- The Commonwealth's purchasing system is not responsive to the BOL's needs and creates consistent shortages of equipment and supplies.
- MIS applications and reporting do not provide all of the necessary information relative to analytical testing. Three areas need to be addressed: 1) access by the regional offices to initial test results; 2) maintenance of sample collection information such as the sample rejection rate for all of the analytical sections; and 3) periodic analysis of workload data.
- A large percentage, approximately 80%, of respondents from the regional offices and the district mining offices indicated their satisfaction with the quality of service provided by BOL.
- The organizational structure with respect to the placement of BOL within DEP and the placement of the Erie facility within BOL should be reassessed. The working relationship that the laboratory has with field operations suggests that a *possible* alternative organizational arrangement within the Deputate for Field Operations might be more appropriate.
- With respect to the Erie facility, the need for a separate laboratory to perform the soil and waste testing that is done may not be justified. It is less expensive to contract for the tests with a private laboratory. The Erie operations is the only unit organized by specific testing function and location as opposed to a general category of analytical testing such as organics. Testing performed at Erie could be incorporated in the Harrisburg facility or contracted.

E. Recommendations

- Continue to maintain an in-house analytical laboratory and perform environmental analytical testing for which BOL has an apparent competitive advantage. For testing that private laboratories may be able to do at less cost, the Department should initiate a pilot program to contract for those tests.
- Account for all financial transactions related to BOL by designing a cost accounting system for the laboratory. Meet with management from Comptroller Operations and DEP's Bureau of Fiscal Management to discuss implementing a joint effort to develop the methodology for the cost accounting system.
- Use a methodology for calculating the average cost per hour for analytical testing that more closely reflects costs related to analytical work only, particularly with respect to operational and fixed asset expenses.

- Consider relocating the Erie laboratory function and related personnel to the central headquarters of the BOL in Harrisburg. Before this occurs, however, the option of contracting out the work should be evaluated as well.
- Additional analysis should be done relative to potential collocation with other Commonwealth laboratories, particularly those associated with DGS and Transportation. Currently, there is a delay in getting final approval on the building plans that have been submitted to DGS for a new DEP and DCNR laboratory facility. The delay is due to a legal dispute over a zoning issue. Therefore, the opportunity exists to do this analysis.
- If it is established that: 1) there would be significant savings from including other laboratories in the initial construction of the DEP/DCNR facility, or 2) private contracting reduces the size of the proposed facility or leads to alternatives other than new construction; a decision should be made as to whether to develop a mini "laboratory campus". Otherwise, plans for subsequent remodeling to include other Commonwealth laboratories should be developed and approved separately and not result in a redesign of what has been submitted. If, however, the Erie laboratory facility is relocated to Harrisburg, then the plans that have been submitted to DGS should be adjusted accordingly. A feasibility study should be done before any plans for collocation or consolidation are considered.
- Meet with DGS procurement management to discuss revising the procurement process to improve inventory management of equipment and supplies. This should include the option of contracting with a vendor to manage the inventory and procurement function as is the case with the Commonwealth of Virginia's laboratory system.
- The MIS application and reporting issues should be resolved jointly, where appropriate, with personnel from the Bureau of Information Systems in DEP.
- Consider moving BOL to the Field Operations Deputate.



COMMONWEALTH OF PENNSYLVANIA
OFFICE OF ATTORNEY GENERAL

February 7, 1996

THOMAS W. CORBETT, Jr.
ATTORNEY GENERAL

Reply To:

Environmental Crimes Section
16th Floor, Strawberry Square
Harrisburg, PA 17120
(717) 787-1340

Samuel Harvey, Chief
Department of Environmental Protection
Bureau of Laboratories
Analytical and Support Division "A"
100 Evangelical Press Building
Third and Reily Streets
P. O. Box 1467
Harrisburg, PA 17105-1467

Re: Privitization regarding to TCLP Analysis

Dear Mr. Harvey:

On February 6, 1996, you informed me that the Department of Environmental Protection is currently considering whether to privatize the testing for (TCLP) which is currently done by the Department of Environmental Protection's Laboratory located in Erie. I have some major concerns regarding this issue.

The following is a list of my concerns:

1. Whether or not the laboratory which is contracted with to do the TCLP analyses is certified by the U.S. Environmental Protection Agency and are the chemists capable and/or qualified to testify in court.
2. Whether a proper chain of custody would be maintained.
3. Are there possible conflicts of interest in an outside laboratory doing a TCLP test for the Commonwealth?
4. Whether our investigations will be kept confidential.
5. We have had very good support from the Erie Laboratory when they have done TCLP analyses. Will that support continue with outside laboratories?

Samuel Harvey, Chief
February 7, 1996
Page Two

If you have any questions or concerns, please contact me.

Sincerely,

Mark A. Bellavia
Mark A. Bellavia
Chief Deputy Attorney General

MAB/pfy

SELLING CALIFORNIA OUT

The Case Against Contracting Out

An issue paper by the California State Employees Association
Published October 1994; revised December 1995

INTRODUCTION

Public jurisdictions in the United States and other countries have blindly accepted privatization of public services to reduce the cost of government.

Supporters of privatization say they and only they have the "politically correct" answer for the ailing budgets of government: use the private sector to perform government services. Private industry is cheaper, quicker, more efficient, more organized and better equipped to handle problems, they argue.

The zealots of privatization would have us think all government services are inefficient, slow, costly, full of bureaucratic red tape, and nonresponsive. Some of the best salespersons for the "privatization euphoria" are many politicians and government managers who have the distasteful job of making hard decisions about ongoing budget deficits.

Paul Starr, a Pulitzer Prize winner and professor of sociology at Princeton University, in his essay, *The Limits of Privatization*, states: "The conservatives' view of government as an economic black hole misses what government adds to

the productive resources of society and overstates what government takes away ... Much public spending represents investment in human and intangible capital as well as physical infrastructure."

Evidence is mounting about problems with privatization and the necessity of re-evaluating the mission of government. This report will outline the major problems with privatization, overview the privatization of California state services and review case studies and what specifically needs to be changed in California.

I. OBJECTIONS TO PRIVATIZATION/ CONTRACTING OUT

Before we can discuss the reasons why privatization does not work, we need to know the different forms of privatization used. The tables below from the State Council of State Governments show the different forms of budgetary percent of privatization used in the U.S. and defines the different forms of privatization.

Forms of Privatization and Frequency of Use in State Programs and Services							
Forms of Privatization	General Services Administration	Corrections	Education	Health	Mental Health/Retardation	Social Services	Transportation
Contracting Out	91.7	92.1	81.3	69.6	64.7	71.3	78.1
Grants	0.6	1.2	8.6	14.1	15.6	12.5	8.5
Vouchers	3.1	0.4	0.7	4.9	5.4	9.3	4.1
Volunteerism	1.4	3.6	1.4	3.3	3.6	3.0	3.3
Public/Private Partnerships	1.7	2.4	5.0	5.4	3.9	2.2	2.9
Private Donation	0.6	0.4	0.7	0.0	2.6	0.2	1.3
Franchise	0.3	0.0	1.4	1.1	1.7	0.4	1.5
Service Shedding	0.3	0.0	0.7	1.1	0.9	0.7	0.4
Deregulation	0.0	0.0	0.0	0.5	1.5	0.4	0.2
Asset Sales	0.6	0.0	0.0	0.0	0.2	0.0	0.2

Source: The Council of State Governments' privatization survey, 1993

Privatization Forms or Techniques

The term privatization has been defined variously as the transfer of government functions or assets to the private sector; the shifting of government management and service delivery to private providers; a shift from publicly- to privately-produced goods or services; and government reliance on the private sector to satisfy the needs of society. In essence, privatization means the use of the private sector in government management and delivery of public services.

Privatization in state government may be classified into 10 forms or techniques:

Contracting out — The state enters into agreements with private firms, for-profit or not-for-profit, to manage state programs, provide services or conduct public projects with state funds. This form includes leases, lease-purchases, build-transfers and similar agreements.

Vouchers — The state allows eligible clients to purchase state services or programs from private providers in the open market.

Franchises — The state gives a private firm monopoly privileges to manage state programs or provide state services in a given geographic area.

Grants and Subsidies — The state makes monetary contributions to help private firms provide state services or state programs.

Asset Sales — The state sells its assets to private firms or individuals to raise sales revenues or enlarge its tax base.

Public-Private Partnerships — The state conducts state projects in cooperation with the private sector, sharing ideas and resources or relying on private resources instead of spending state funds.

Private Donations — The state relies on private resources, such as personnel, equipment or facilities, to manage state programs or provide services to the public.

Deregulation — The state removes its regulations from the services previously provided by state workers to allow private provision of the services.

Volunteerism — The state uses volunteers to help manage state programs or deliver services to the public.

Service Shedding — The state drastically reduces the level of a state service or stops providing a service so the private sector can assume the function with private resources.

Contracting out is by far the most frequently used method in all the major governmental program areas.

Grants rank as the second most popular method used in education, health, mental health, social services and transportation.

As an example, the survey from the State Council of State Governments indicated that in the health care area at least 10 states reported more than 15 percent of their health care services were privatized in some manner. These services are infant mortality reduction programs, lead poisoning, substance abuse, AIDS, clinics, and research and development.

Public/private partnerships are increasing and score third in the Departments of General Services, Corrections, Education and Health.

The Department of Corrections in 20 states, for instance, responded that the following services are privatized through contracting out and to a lesser degree public/private partnerships: substance abuse, education and training of inmates, healthcare, community corrections, and laboratory services.

“State privatization will continue to expand in the future ... Over 85 percent of state auditors, budget directors, and comptrollers ... predicted increased privatization in the next five years” writes John O’Leary, author of the *Eighth Annual*

Report on Privatization: Privatization 1994, a publication of the Reason Foundation.

Government services targeted for privatization are mental and health, general and administrative, social services, health care service, transportation, and corrections.

Some of the specific services include construction and building maintenance, data processing, auditing, custodial, printing, information services, highway maintenance, toll roads, case management, community living support, psychiatric services, therapy, AIDS, health clinics, Medicaid programs, job training, child care, foster care, claims payments for the elderly, rehabilitation services, and services for people with disabilities.

California ranks high in the use of contracting out as the method to privatize state services.

The California State Employees Association (CSEA), SEIU Local 1000 AFL-CIO, CLC has historically challenged state attempts to contract out services. The Public Employee Department of the AFL-CIO has strongly objected to the privatization of governmental services. Based on years of experience with the contracting out of state services, the following are the basic objections to privatization and contracting out schemes:

Bad Public Policy

"Private provision of government services undermines the democratic character of our nation," states the Public Employee Department, AFL-CIO in their publication *The Human Costs of Contracting Out*. "Instead of being regulator of the powerful to protect the powerless, defender of the otherwise defenseless, and protector of those unable to protect themselves, the privatizers would have government act as an agent of the rich and powerful as they attempt to control our economic and political life."

Paul Starr in his thought-provoking work, *The Limits of Privatization*, argues that when measuring the "savings" obtained by privatization/contracting out, analysts must count lost accountability, reduced investment in people, diminished public policy debate, increased sex and race discrimination, and the increased isolation of the least advantaged in society.

Conservative politicians in California and other public jurisdictions have forgotten good public policy in this area and instead have opted to support public policy that encourages privatization/contracting out as an easy way to resolve budget deficits and "rightsize" government.

Contracting out costs more than it saves in the long run

For those who just look at the bottom line of the balance sheet, what you would most likely see is that it is cheaper to privatize/contract out services. But governmental policy analysts must ask themselves the following questions: Why is it cheaper? Do private employees work better? Are there private sector "new" and "magical" methods of doing the job better?

The union has found there are no magic formulas to cut governmental costs. Savings are generally accomplished through low salaries, lack of benefits, creative accounting and other bad personnel practices that result in high turnover and lower quality of services.

Quality of services declines

"Citizens have a right to get quality public services in return for their tax dollars. Without adequate monitoring and auditing of contracts, there is no way to judge whether

**“
There are no magic
formulas
to cut
governmental costs
”**

taxpayers are getting what they paid for," notes the AFL-CIO in its publication *The Human Costs of Contracting Out*.

Corruption Increases

Contracting out and corruption are not new. Payoffs, kickbacks, conflict-of-interest, price-fixing and collusive bidding have been around for years. Peter E. Voss, formerly co-chairman of President Ronald Reagan's Ohio campaign before he was appointed vice-chairman of the U.S. Postal Service, was forced to resign due to kickbacks and frauds when parts of the postal service were contracted out. He was sentenced to a four-year jail term.

Commenting on his legal problems, Mr. Voss said he got into these difficulties because, "I'm used to being involved in intricate business deals ... I did not think of the total *ethics* of the situation (emphasis added)."

In California, Bill Honig, former superintendent of public instruction, was found guilty in Sacramento Superior Court in January 1993 of four conflict-of-interest charges in the use of \$300,00 in state funds to perform services for the Quality Education Project owned by his wife, Nancy Honig.

To this day, Honig believes he did nothing wrong but instead acted in an appropriate manner: he did it for the children. Does the end justify the means? Obviously, the court did not think so.

Public administration is essential to public service

"Privatization calls upon motives of private gain, weakening the grounds of authority and the capacity to assert collective interests over more narrow ones," author Starr points out in *The Limits of Privatization*. Basically, there are many government services that give us peace of mind and they are better operated by the government for the good of us all.

One of the major objections to privatization is that public-operated programs are required to have open public hearings to inform the public of what the public entity is doing and the reasons for the decisions made while a private contractor performing public services is not required to do so.

Citizen participation in government decreases

Many proponents of privatization would set U.S. governmental policy in America's corporate board rooms. To

bring this concept to its ridiculous end, privatization could lead to no open hearings for the public, no city council meetings, no government officials, no legislators, governors, and no president or Congress.

Obviously, some would say "good riddance," but the majority of citizens sees the need for a democratic government even though it is not perfect.

As an example, in a survey of state governments a few

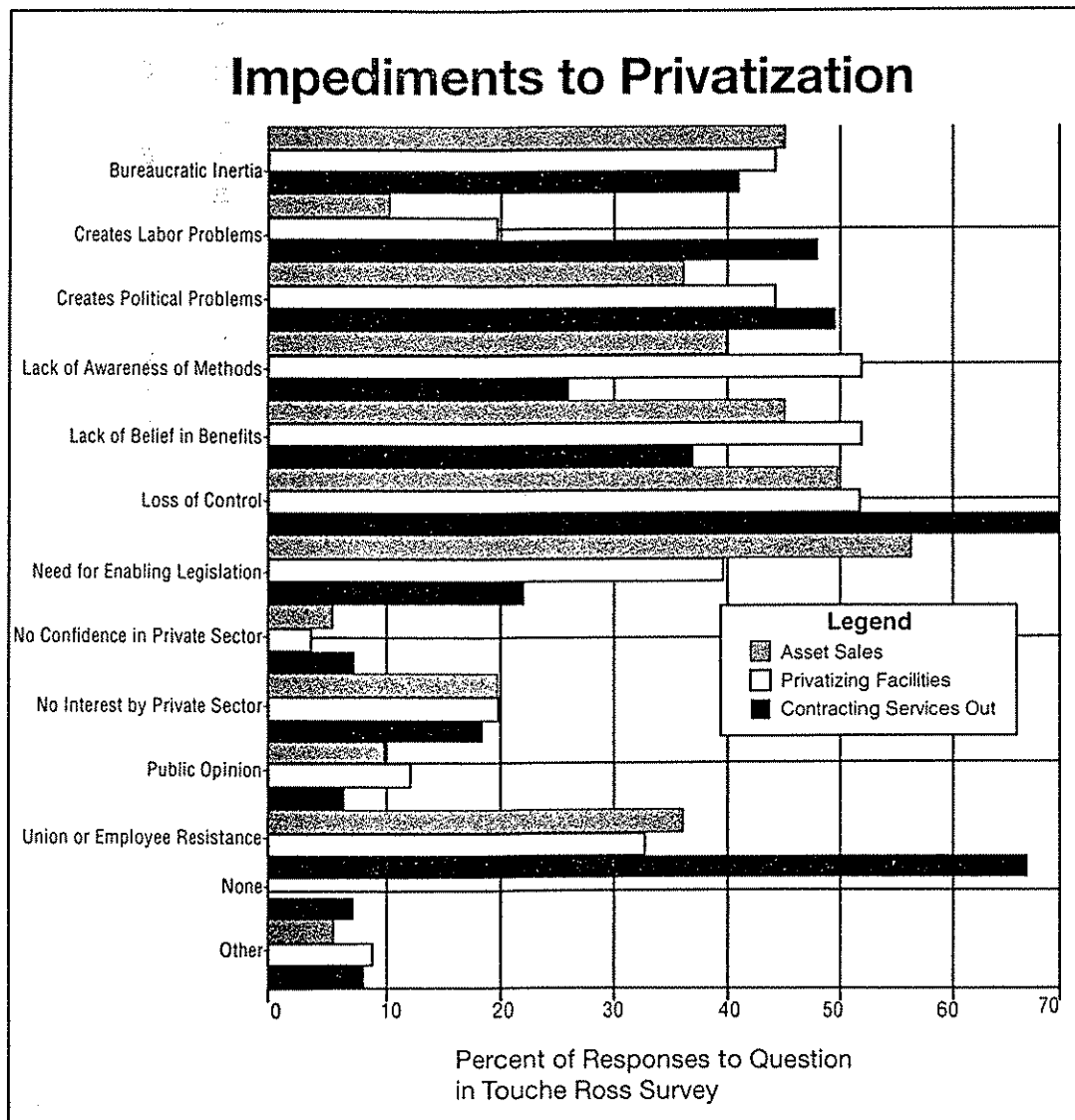
government jobs will disproportionately harm those women and minorities attempting to promote themselves on the basis of ability. If their job is contracted out they will not get a chance to advance.

This issue has been debated heavily during the past few years. Proponents argue that private industry has progressed and that the "minority mix" is equal to the mix in public jurisdiction. However, a study conducted by the Joint Center

for Political Studies for the U.S. Department of Housing and Urban Development showed that black workers are more vulnerable than white workers to negative results from privatization/contracting out schemes since many black workers will most likely work for a governmental agency and could get laid off due to low seniority.

In addition, the study showed that Latinos were impacted less than whites or blacks from privatization/contracting out since they are not very well represented in public jurisdictions. Obviously, this points out the problem of affirmative action programs that fail in the hiring of Latinos. This is especially true in California.

Privatization/contracting out schemes will not increase the hiring of Latinos in public service. In fact, it will decrease that prospect.



years ago, Touche Ross discovered that the biggest impediment to privatization was "loss of control."

Age, race and sex discrimination increases

Even though federal, state and local governments are not discrimination-free, more advancements have been made in the hiring of women and minorities in government than in the private sector. The privatization/contracting out of

Isolation of the disadvantaged increases

"Privatization, whether by design or default, is a mean-spirited, cold-hearted policy. It turns people into objects. Government must be a good neighbor, or reliable friend. But when greed replaces need as the cornerstone of public policy, government begins to lose its sense of purpose and its compassion," observes the AFL-CIO in its publication, *America - Not For Sale*.

Privatizing will narrow public programs and reduce essential government services to the lower-middle classes and

the poor. This will create resentment toward government and deeper isolation.

As an example, the Economic Policy Institute in Washington, D.C. published a report in 1989 entitled *The Emperor's New Clothes: Transit Privatization and Public Policy*, which found that private transportation contractors are obtaining "cost savings" by reducing services to rural and low income communities.

The most scholarly study to date on the subject (December 1994) is *The Perils of Privatization* by Cornell University Professor Robert Hebdon at the New York State School of Industrial and Labor Relations.

Hebdon analyzed the major pro-privatization studies conducted in the last two decades — including detailed statistical analysis of the claimed cost savings — and found that both the alleged savings and the public benefits were largely illusory.

"We found privatization to be, at best, a disruptive, socially destabilizing, and ultimately harmful method of cost saving. At its worst, privatization can actually increase costs, lower the quality of services, reduce public accountability and marginalize citizen involvement in the democratic process," Hebdon writes.

He adds, "The rational solution is to seek creative alternatives to the way services are currently provided by improving the utilization of the existing workforce. The practical answer can be found in fundamental reform of public sector work processes through dialogue, discussion, and negotiations. This is the challenge for political, management officials in the public sector, public employee unions and employees."

II. OVERVIEW OF CONTRACTING OUT IN CALIFORNIA: Past/Current Legislation

In California, Article VII of the state Constitution historically requires state services be performed by state civil service employees. At various times the constitutional provisions have been used by opponents and proponents of privatization/contracting out in legal actions either defending or challenging privatization/contracting out schemes.

Legislators during the past several years have attempted to carve out exceptions to the constitutional provisions.

One of the major turning points in California was in 1982 when several legislative bills were introduced, such as Assembly Bill 3336, which allowed contracting out state services for cost saving. Many of these bills were detrimental to the rights and protections enjoyed by state employees.

Prior to this legislation, contracting for personal services

was only allowed under certain specific conditions. These conditions are now codified under Government Code Section 19130 (b):

- 1) State functions that are exempt from civil service per the state Constitution;
- 2) New state functions mandated by the Legislature;
- 3) Services not available through the civil service system;
- 4) Services that are incidental to a contract for purchase of or lease of real or personal property;
- 5) Services that may cause a conflict of interest;
- 6) Emergency appointments per state Constitution;
- 7) Private counsel per Attorney General's consent;
- 8) Services that cannot feasibly be provided by the state where the services are to be performed;
- 9) Training services that cannot be performed by civil service employees;
- 10) Services that are urgent, temporary, or occasional.

After hours of meetings and negotiations, a compromise was reached on the "cost saving" contracting out legislation which is now codified in Government Code Section 19130

“ CSEA and other labor organizations have challenged increased efforts by the state to contract out services. ”

(a). During these negotiations, labor organizations were assured by the governor's office the state would not abuse this legislation.

In addition, CSEA negotiated a critical piece of language in the legislation preventing the "displacement" of state employees. This language reads as follows: "The contract does not cause the displacement of civil service employees. The term 'displacement' includes layoffs, demotions, involuntary transfer to a new class, involuntary transfer to a new location

requiring a change of residence, and time base reductions. Displacement does not include changes in shifts or days off, nor does it include reassignment to other positions within the same class and general location."

After the governor signed AB 3336, little contracting out occurred for two years. Since 1985, however, CSEA and other labor organizations have challenged increased efforts by the state to contract out services. Legislative proposals to expand contracting out have increased from 5 to 10 bills per session up to 20 to 30 per session.

Through the years CSEA has killed literally hundreds of budget and legislative proposals to contract out state services.

California's conservative politicians are pressing privatization by introducing legislation and constitutional amendments to contract out state services. Sen. Marion Bergeson, for example, a strong proponent of contracting out in the Department of Transportation (Caltrans), introduced in 1992 Senate Concurrent Resolution 72, which required the Legislative Analyst's Office contract with a private consultant firm to conduct a complete management audit of Caltrans' organizational structure and priorities along with specific recommendations to improve the department's efficiency and effectiveness.

SRI International was chosen to conduct the survey. In January 1994, SRI published 72 specific recommendations for improving Caltrans' performance. The number one recommendation was to introduce a constitutional amendment that eliminates any civil service protections to make it easier to contract out engineering and related services in Caltrans.

Sen. Bergeson, with Gov. Wilson's approval, introduced and the Legislature passed a law in 1993 (Senate Bill 1209) that gave more flexibility to Caltrans to contract out engineering and related work. Subsequently, the Professional Engineers in California Government (PECG), which represents the professional engineers bargaining unit, filed a lawsuit challenging the constitutionality of SB 1209. The Superior Court agreed with PECG. The state is appealing at the direction of Gov. Wilson. In the meantime, Senators Bergeson and Kopp introduced Senate Constitutional Amendment 46 which does what the SRI study recommended. As of this writing, SCA 46 has not moved through any legislative committees mainly due to CSEA's support of PECG, which maintains the constitutional amendment is not necessary.

In response to the SRI study, PECG commissioned A. Alan Post, former legislative analyst, to conduct a study of the cost effectiveness of contracting out engineering services.

In February 1994, Post released a report that clearly showed that "in-house" engineering services cost less than

private consultants due to the higher salaries and benefits paid to engineering contractors. The report also stated the quality of services performed by private and civil service engineers was equal, even though it was easier to work with civil service engineers since they know the administrative rules and regulations that govern a construction plan.

III. CALIFORNIA CONTRACTING OUT LITIGATION

Through the years, CSEA and other state employee unions have filed various lawsuits challenging the existing government codes and state constitutional provisions.

Some lawsuits have resulted in interpreting existing codes and in some cases stopping the proposed contracting all altogether. There have been several legal decisions issued that have placed parameters on contracting out.

Generally speaking, with a conservative state Supreme Court, state employee unions have not been very successful in stopping contracting out or changing government codes so they are balanced to reflect state employees' rights and concerns.

As mentioned earlier, the only state employee protection that is clearly spelled out in the codes (Government Code Section 19130 (a) (3)) relates to the "displacement" of state civil service employees if their jobs are contracted out.

The provision basically prohibits the state from contracting out services for cost saving and laying off state civil service employees performing the services.

State employee unions have experienced more success in Superior Court than in the state Supreme Court.

In early 1986, CSEA filed a lawsuit challenging the contracting out of janitorial services in the Department of Developmental Services Developmental Centers. The Writ of Mandate challenged the constitutionality of the cost savings based personal services contracting out codes (Government Code Section 19130 (a)). In response to the suit, Superior Court Judge Fred Marler ruled July 11, 1986 that Government Code Section 19130 (a) is not unconstitutional on its face; however, a "...case-by-case treatment is required." In other words, as contracting out cases are taken to court, the issue of constitutionality can be ruled on.

Since the union was not successful in Superior Court, it appealed to Appellate Court, which ruled against the union. The union then appealed to the California State Supreme Court. The court refused to hear the matter; therefore, the Appellate Court's decision that the codes were constitutional stood. As Judge Marler's decision stated, the court would be likely to rule on the constitutionality of specific contracts litigated on a case-by-case basis.

This type of decision unfortunately gives politicians like Gov. Wilson and his conservative cronies fuel to keep the privatization/contracting out schemes alive and well in California.

IV. CURRENT TRENDS IN THE UNITED STATES AND CALIFORNIA

According to the November 1993 issue of *State Trends Forecast*, published by the Council of State Governments, there are five policy options state policymakers can consider. These policy options were developed by privatization experts:

■ Option 1 — State Management Improvement Without Privatization

In this option, state agencies attempt to improve cost efficiency and productivity through good in-house management techniques.

Many states, including California, are making attempts to implement these options, i.e. efficiency commissions, foresight and strategic planning, total quality management and civil service reform.

■ Option 2 — Privatization of Professional and Support Services

This option allows state agencies to privatize professional, administrative and support services that do not directly involve state service delivery to the public.

California is a big proponent of this option. Custodial, security guards, printing and facility maintenance are widely contracted out.

■ Option 3 — Privatization of Public Works and Infrastructure

In this option, state agencies privatize selected public works and infrastructure projects.

“ Custodial, security guards, printing and facility maintenance are widely contracted out. ”

California is getting more involved in this type of privatization.

Highway maintenance and toll roads are examples of this option embraced by Caltrans.

■ Option 4 — Privatization of Service Delivery to the Public

In this option, historically used in specific state departments, state agencies privatize selected state programs or services provided to specific clients or constituents.

Medi-Cal, social services, job training and correctional facility construction are areas in which California is increasing contracting out.

■ Option 5 — Competition Between Public and Private Sectors

This option introduces competition between state agencies and private providers in the administration and delivery of services on a statewide basis.

California has fully embraced this option; however, the bidding process and contracting cost comparisons to current state costs need to be changed significantly to make the process a truly competitive process.

Simply stated, California has one way to calculate costs and will not entertain other methodologies when comparing state costs to contracting costs. In most cases, state costs are bloated out of proportion to the contractor's costs. As a result, the state is never competitive with the contractor's costs.

Janitorial contracts are notoriously bloated. As an example, state department A decides to contract out janitorial services at a certain building location. Previously the Department of General Services provided janitorial services through the use of civil service janitors. The plan calls for the transferring of current civil service janitors to another state building location which may or may not house several different state department offices.

During the bidding process janitorial contractor Z bids for the job with other local janitorial contractors. With just a few calculations to meet the government code standards, contractor Z is able to get the bid. Contractor Z wins the bid/contract for one year. This is a cost-savings based contract so the contract must meet standards outlined in the current government code [Government Code Section 19130 (a)].

Under the law, the State Personnel Board (SPB) is responsible for the cost comparison analysis between contractor Z and the state to evaluate which will cost the least.

Again, under the current law the contractor only has to show a 10 percent savings when compared to the state's cost.

In virtually all cost-savings based janitorial contracts, the SPB will only use the current staffing ratio which is based on

the square footage of the area to be cleaned.

When writing the bid, contractor Z stated that their company could perform this janitorial service for department A in less time (hours) and with lower salaries and benefits.

In almost all cases the janitorial contractor "lowballs" the bid by reducing the number of hours it takes to perform the services as opposed to just reducing salaries. By law the salaries must be within 15 percent of state salaries in metropolitan areas and 25 percent for nonmetropolitan areas.

It is the union's position that at a minimum the state should adjust its costing formula to reflect the same number of hours the contractor uses to have a true cost comparison, which would provide an accurate picture of whether the state is really saving money.

California is escalating privatization. The state's current policy is to contract out state services while leaving the impression it is restructuring and streamlining state government without impacting the quality of services and state employees' jobs. This is outright lying.

V. CONTRACTING OUT CASE STUDIES

The following examples show the serious problems with contracting out state services. Many of these problems center around the eight objections listed earlier in this report.

State Printing Plant

In late 1992 the Office of State Printing (OSP) contracted out the printing of "540 EZ", a 32-page state tax booklet.

The contractor charged \$1.2 million to print the job. The contractor's print job was defective and the state was not charged for the defective booklets. The OSP reprinted the 8 million tax booklets and paid OSP employees overtime to print the job.

These forms were always printed by OSP. Supposedly the job was contracted out because the Franchise Tax Board imposed short deadlines which OSP could not meet. An extension was granted for the OSP to reprint the job. But if the deadline had been extended initially, the job would not have had to be redone at a higher cost.

The Deukmejian and Wilson administrations intended

" In 1980, \$1 million per year was contracted out by the OSP; by 1992 \$11 million was contracted out. "

to contract out the entire printing plant. They implemented hiring freezes and failed to replace outdated printing equipment. In 1980, \$1 million per year was contracted out by the OSP; by 1992, \$11 million was contracted out.

Department of Transportation (Caltrans)

The contracting out of engineering services at Caltrans has caused union and management controversy and bad labor relations.

The union that represents the state civil service engineers, Public Engineers in California Government (PECG), has fought a grueling legislative and legal battle with Caltrans and the governor for years.

Like CSEA, PECG filed lawsuits and lobbied in opposition to legislation detrimental to engineers and other state employees.

PECG, for example, filed a lawsuit in 1994 challenging the constitutionality of recent Caltrans legislation (SB 1209) signed by Gov. Wilson. In this case, Caltrans was contracting out engineering services under the guise of expediting freeways construction even though the contractor's cost was more.

After a hearing, the court ruled in PECG's favor. CSEA is supporting PECG's actions since CSEA represents Caltrans support staff working with the engineers. Gov. Wilson has ordered the state to file an appeal. Meanwhile, CSEA has filed an Amicus Curiae (Friend of the Court) brief supporting PECG's legal position in this case.

The legal activity surrounding the improper contracting out of engineering services has cost taxpayers above the costs associated with paying outside engineering contractors top dollar to perform state services.

All of this could have been avoided if Caltrans hired the necessary staff to cover the workload in the first place.

Department of Insurance

After the Bureau of State Audits audited the Department of Insurance (DOI) operations between 1991 and 1993, the state auditor general released a 1994 report that showed the department's conservation and liquidation division employed fewer than 10 civil service employees and more than 90 exempt and "at will" employees.

The auditors listed several hiring problem areas including contracting out "outside consultants." Some were hired without competitive bidding, and some were hired by oral agreements only. Two law firms, for example, were paid \$1 million based on an oral agreement.

Phony expense claims were approved for outside consultants which included reimbursement for health club visits and nonwork-related long distance telephone calls.

Departmental management disciplined the responsible DOI managers, but by then the harm was done. Hard-earned tax dollars were improperly used and management was not monitoring contracts and other related personnel matters.

Department of Motor Vehicles

Legislators have leveled fire at DMV for the millions of dollars "overspent" on a computer system originally intended to upgrade the driver and vehicle registration database into a state-of-the-art computer system.

Begun in the late 1980s under the Deukmejian administration, the project's original cost of the computer contractor was pegged at approximately \$28 million. In 1991, DMV Director Frank Zolin ordered a review of the project after its price tag reached \$49 million.

Since the contractor, TANDEM Computers, Inc. could not get the project to function properly, the company proposed salvaging the project at a cost of \$100 million. At that point, the DMV director decided to pull the plug on it.

The internal audit indicated two major areas that caused the project to fail:

- 1) Incorrect technological decisions made in the early stages of the project;
- 2) An upper-level management hands-off approach to the contractor and project.

As a result of massive waste on this project, Assemblymember Richard Katz, chairman of the committee with jurisdiction over DMV, asked the Sacramento County District Attorney's Office, the State Attorney General's Office, and State Fair Political Practices Commission to examine the DMV contracting mess. These agencies are conducting criminal investigations of employees responsible for the project who switched from working as state employees to working as Tandem consultants and then returned to DMV.

DMV still needs an updated computer system and will probably not move any further until the current matter is resolved.

State Lottery

In mid-July 1994, the state auditor released a report that

strongly criticized state Lottery management for awarding a contract to GTECH Corporation without competitive bidding.

The Lottery director, Sharon Sharp, resigned from the Lottery in November 1993 under a cloud because of her relationship with GTECH corporation. Two competing contractors, Automated Wagering and High Integrity Systems are convinced that Lottery management developed contract requirements, such as installing new automated equipment in 13,000 store locations within six months, to preselect GTECH. Even though the auditor found the GTECH contract (\$203 million) will cost less for the new on-line network than the previous system, the six-month installation deadline prevented other contractors from bidding. Taxpayers will never know whether other contractors may have bid a less costly amount. Lottery management's disregard of nonbiased and competitive bidding procedures may have cost the state millions of dollars.

Department Of Education

The Department of Education (DOE) has a history of contracting out education consultant work to local school district teachers or so-called visiting educators.

CSEA has successfully challenged DOE's use of these contracts. One of the most glaring examples, however, of why contracting out is a bad public policy is the Bill Honig case.

In January 1993, a Sacramento Superior Court jury found Superintendent of Public Instruction Bill Honig guilty of four conflict-of-interest charges when he used more than \$300,000 in state funds to pay the salaries of local school employees who performed services for the Quality Education Project (QEP) owned by his wife, Nancy Honig.

The Honigs financially benefitted from the QEP. Mrs. Honig was reportedly earning \$108,000 a year from QEP in early 1993.

The work performed by the five local school employees could have been done by state civil service education consultants, and there would have been no need for the contracts. Also Honig would not have gotten into any legal trouble.

Even after he was convicted, Honig insisted he did nothing wrong and that his interest was in the interest of California's school children rather than in additional money.

Public sector unions throughout the United States have warned policymakers of these conflict-of-interest problems with contracting out or any other form of privatization.

Honig has appealed the verdict. The case has been fully briefed by both parties. Oral argument on the case will probably take place in mid 1995.

California State University System

The California State University (CSU) System isn't governed by laws that restrict the contracting out of goods and services or consider the impact on CSU employees.

CSEA has been opposed by the Department of Finance, the governor's office and CSU management in its attempts to win contracting out legislation to cover the CSU system. Meanwhile CSU is wasting scarce dollars on contracting out schemes. CSU contractors are inadequately staffed, unmonitored and unconcerned with the public service mission of the university.

The High Cost of Contracting Out: CSULB and Custodial Out-Sourcing, a CSEA report presented to the Board of Trustees July 19, 1994 provides examples of the problems:

In October 1993, CSU Long Beach solicited bids for outside custodial services for 15 buildings on their upper campus. In December, the CSU formally notified CSEA that it intended to contract out custodial services on a long-term basis and gave CSEA the opportunity to meet and confer on the impact of the decision. The implementation date for the contract was January 1, 1994.

This short notification period allowed no opportunity for substantive talks before the implementation of the contract. CSEA submitted information requests on the comparative costs and the impact on the bargaining unit. A meeting to discuss the requests was not scheduled until March 1994, and a meet-and-confer session did not take place until May. In the meantime, the union was told 17 temporary-intermittent employees were dismissed as a consequence of the contracting.

At meetings May 24 and June 20, CSULB provided CSEA with a spreadsheet, *Annual Cost - Custodial Services*, that "proved" the campus would realize a \$357,140.62 savings over the in-house services. This seemed an incredible savings considering that 17.5 FTE custodial positions were being replaced by only 18 full-time employee contracted positions. CSEA took the so-called spreadsheet and the accompanying information responses and developed a more thorough analysis. CSEA's findings:

Incorrect math: CSULB did not add the contractor's costs correctly.

Cost error: \$8,000.

Inflated in-house salary: The campus assumed all positions at full-time, top salary, even though actual employee positions were part-time temporary-intermittents.

Cost error: \$100,000.

Inflated in-house benefits: CSULB assumed all positions at full benefits. Actual employees were intermittent with breaks in service making them ineligible for benefits.

Cost error: \$174,262.01.

Inflated training costs: CSULB assumed training costs for custodians in the fifteen affected buildings but was unable to produce any record of who was the trainer, the subject of the training, or when training occurred.

Cost error: \$5,345.91.

Unjustified savings in chemicals and supplies: The contract is very specific in requiring the contractor to purchase the exact same brands of chemicals and supplies from the same vendors as the state to perform the same work as in-house. CSULB could not explain how a private contractor could beat state procurement savings.

Cost error: \$13,564.10.

On-campus support costs not included: CSULB is responsible for providing disposable supplies to the contractor. This area requires the services of a stock clerk. No share of costs were assigned to the contractor.

Cost error: \$11,442.60.

On-campus costs for contract monitoring not included: The campus did not include monitoring costs in its initial estimates. CSULB later provided CSEA with its revised cost estimate.

Cost error: \$32,112.00

Training costs not included: CSULB later provided CSEA with a training cost for the contractor not included in original estimates.

Cost Error: \$1,237.

The sum total of these errors is \$346,134.92. The new estimated cost difference between the in-house and contractor is \$11,005.70 in favor of the contractor.

“ Actual employees were intermittent with breaks in service making them ineligible for benefits.

***Cost error:
\$174,262.01***

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