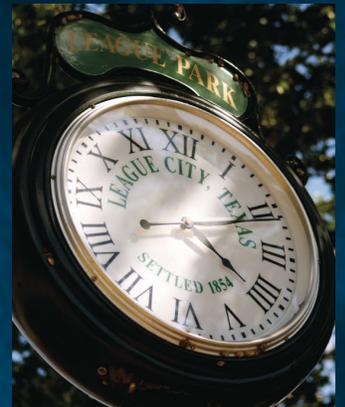


Texas Public Policy Foundation

Competitive Contracting

League City, Texas



James Quintero and Oliver Porter
December 2015

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Executive Summary

An analysis of the current operations of League City reveals that competitive contracting could provide core services at significantly lower costs, while maintaining or improving their quality. While current operations for the city—as indicated by an analysis of expenditures in budget years 2011 to 2014—are generally well-managed compared to other similar-sized governments, the costs greatly exceed those possible under the competitive contracting model.

Through the adoption and application of the competitive contracting model outlined herein, League City may expect a reduction in core departmental costs ranging from \$30 million to \$56 million over the period of a six-year contract. This reduction in costs represents a range of annual savings of between 15 percent to 28 percent over the current level of expenditures (\$198.6 million over the same period).

Included in the above savings is a reduction in the city's contribution to personnel costs of \$5.6 million over six years, of which \$2 million represents the impact due to the projected reduction in the city's annual contribution for pension liabilities. By utilizing the savings generated from the competitive contracting process, the city's unfunded liabilities for pensions could be eliminated in a few years.

What's more, the city also has the opportunity to re-direct savings to other policy priorities, such as reducing taxes, improving service delivery, increasing capital programs, early debt retirement, and more.

Further savings, which are not estimated as part of this study, may result from the application of competitive contracting to other services. Additional services that could be considered are outlined later in this report (see *Findings: Additional Contracting Opportunities*).

What Is Competitive Contracting?

Competitive contracting is the process by which “a government entity solicits bids from qualified private-sector service providers to perform a specific service under contract for a defined fee.”¹ The goal of competitive contracting is to use competition to reduce costs and improve service delivery. The range of services that may be contracted out can be limited in scope (e.g., trash collection) or nearly all-inclusive (e.g., everything but public safety).

In congressional testimony before the Committee on Government Reform and Oversight,² Wendell Cox identified these five basic steps to the competitive contracting process:

- The public agency seeks competitive proposals to deliver a specific quality and quantity of service for a defined period of time;
- The public agency may submit its own cost proposal, capturing all attributable costs, and subject to the same terms and conditions that apply to private proposals;
- A contract is awarded to the lowest cost responsible and responsive private proposer who demonstrates an ability to provide the same quality and quantity of public service, if the cost is lower than current expenditures;
- Contractors that fail to provide the service as specified are financially penalized or replaced;
- New competitive proposals are sought in sufficient time to award a new contract for service commencing at the expiration of the contract. New competitive proposals are sought regardless of whether the incumbent contractor has performed satisfactorily or not.

1. Cox, Wendell, Utt, Ronald D., *Using Market Processes to Reform Government Transportation Programs*, Report No. 2: *Improving Transit with Competitive Contracting*, Heritage Foundation, July 7, 2011.

2. Cox, Wendell, *Competitive Contracting for More Effective & Efficient Government*, Congressional Testimony by Wendell Cox before the Subcommittee on Civil Service, Committee on Government Reform and Oversight, United States House of Representatives, April 5 1995.

In addition, the city may realize savings from the reduction or elimination of future capital expenditures for equipment, systems, maintenance facilities, and warehouses. An actual recovery of costs may occur with the sale of such equipment. These funds could also be applied to reduce debt or unfunded liabilities, among other possibilities.

Total savings available to League City will depend on the extent to which elected officials wish to employ competitive contracting, the quality and thoroughness of the proposal and selection process it employs, and the participation by private industry in response. Previous experience indicates that, when properly employed, competitive contracting may produce substantial cost-savings while maintaining equal or better levels of service.

Based upon the magnitude of the projected savings and the concurrent improvement in responsiveness to citizen needs that has been evidenced in other governments, it is recommended that League City begin the process of converting the array of Core Services outlined herein as soon as possible.

Background

The use of private providers to supply a broad range of municipal services is a powerful tool that can help governments provide important services at a lower cost and with higher quality. This approach is known as competitive contracting, a policy “that opens a bidding process, or competition, wherein the winning entity is awarded the contract [for the provision of public goods and services].”¹

In some cases, the competitive contracting process is also referred to as public-private partnerships or privatization; however, these terms often have a broader connotation and entail the transfer of public assets to private entities, which is unnecessary in competitive contracting.

The range of services included within the scope of this process can be narrowly focused (e.g. trash collection) or nearly all-encompassing (e.g. everything but public safety); but the best results are generally realized when the scope is not limited.

A major advantage to the competitive contracting process is that it introduces competition into an otherwise monopolistic environment. By applying market forces to the provision of government goods and services, competitive contracting can simultaneously help reduce costs and improve the delivery of services.

Under the guidance of one of the study’s lead authors, Oliver Porter, Sandy Springs, Georgia, a city of approximately 100,000 residents, has already proven the competitive contracting model to be successful.² In the nine years since the introduction and full-implementation of the contracting model of governance, residents of Sandy Springs have benefited from:

1. No tax increases;
2. No long-term debt issuances, with 20 percent of the operating budget devoted to capital improvements;
3. The amassing of a \$45 million reserve; and
4. No liabilities accrued for pensions and other benefits.*

As a result of the model, citizens are happy—and election results and surveys prove it. One of the more prominent surveys, conducted in 2010 by the National Citizens Survey group, found that 83 percent of Sandy Springs residents rated their overall quality of life as either “excellent” or “good” (see *NCS: Sandy Springs, GA Residents Overwhelmingly Approve of City Government*).³

Noting the success of the Sandy Springs model, five other cities in Georgia adopted and applied the same concept and were met with great success. These five Georgia cities include: Johns Creek, Milton, Chattahoochee Hills, Dunwoody, and Peachtree Corners.⁴

To help cities and counties in Texas achieve similar cost-cutting results and improve the day-to-day lives of its citizenry—especially those in areas facing mounting fiscal challenges—the Texas Public Policy Foundation’s Center for Local Governance identified a candidate city—League City, Texas—studied its fiscal position, and applied the competitive contracting model to estimate how the city and its residents might benefit.†

* See Appendix A for more detail on the Sandy Springs model.

† This study has been provided to League City at no cost to taxpayers.

NCS: Sandy Springs, GA Residents Overwhelmingly Approve of City Government

The National Citizens Survey (NCS) conducted a survey of Sandy Springs, GA residents in which it found that 83 percent of respondents rated their overall quality of life as “excellent” or “good.” In addition, the survey also found that about 8 in 10 respondents planned to stay in Sandy Springs over the next five years. The poll was conducted in 2010.

Other highlights from the survey include:

- In general, those surveyed demonstrated “strong trust in local government.” Most respondents rated the overall direction being of Sandy Springs as being either “good” or “excellent.”
- Eighty percent of respondents rated Sandy Springs as an “excellent” or “good” place to work.
- Almost 8 in 10 of those surveyed identified Sandy Springs as an “excellent” or “good” place to raise children.
- Most of the City’s residents gave favorable ratings to their neighborhoods and the Sandy Springs community as a place to live.
- Police services: 88 percent of respondents rated the Sandy Springs Police Department’s performance as “excellent” or “good.”
- Fire services: 94 percent of respondents rated the Sandy Springs Fire Department’s performance as “excellent” or “good.”
- Seventy-six percent of respondents categorized the overall direction of Sandy Springs as “excellent” or “good.”
- Eighty-eight percent of those surveyed said that the quality of service delivery had either “much improved” or “somewhat improved” since Sandy Springs assumed responsibility for providing these services in 2005 from Fulton County.

The National Citizen Survey worked in close cooperation with the City of Sandy Springs to develop the survey. According to NCS: “All households within the City of Sandy Springs were eligible to participate in the survey; 1,800 were selected to receive the survey ... A total of 313 completed surveys were obtained, providing an overall response rate of 19%.”

For more information on the National Citizens Survey results, please visit <http://www.sandyspringsga.org/citizensurvey>

Source: *SandySpringsGA.org*

This study analyzes the city’s financial and operational performance to determine if there is a reasonable expectation that various services can be provided more efficiently by the private sector. To make this determination, this study probes the following:

1. What services could be transferred to private industry through a competitively bid contract?
2. What would be the financial and service impact of the transfer?

Further, this assessment focuses its attention on three major areas:

1. The array of core administrative and operating services that have been successfully provided under the compet-

itive contracting model adopted by Sandy Springs and five other contract cities;

2. The impact on long-term liabilities that would result from conversion to this model; and
3. Additional service areas not included in its core functions that might benefit from adoption of the model.

Within League City’s budgeting structure, two major funds have been identified as appropriate for consideration: the General Fund and the Motor Pool Fund.* For purposes of estimating potential savings in this study, only services under these two funds are examined because of their general purpose nature and broad structure of the funds. In so doing, the services analyzed here correspond to those that have been placed under competitive contracting in Sandy Springs and in the five other Georgia cities that adopted the model.

* There are five fund types within the City’s budget: the General Fund, the Utility Fund, the Debt Service Fund, the Motor Pool Fund, and the Special Revenue Fund.

It is important to recognize that additional services could be considered for conversion which have the potential to generate savings in excess of the overall savings estimate. They will be addressed in this study (see the *Findings* section).

Scope and Methodology

Core Services

The first step in the analysis was to identify services and functions the city performs that could be offered under the competitive contracting model. The targeted areas include the following services and functions that have been provided in Sandy Springs and five other cities that have adopted this model:

- Human Resources
- Interagency Information Technology
- Financial Administration
- Purchasing
- Fleet Services
- Facility Services
- Community Development Services
- Planning, Zoning, Permitting, Code Enforcement
- Internal Audit
- Information Technology (IT)
- Public Works
- Parks and Recreation
- Public Information
- Public Safety (backroom operations)
- Management of the Capital Improvements program
- Transportation: Traffic Design, Traffic Control, Road and Sidewalk Maintenance

These functions and services were analyzed to ascertain if it would be appropriate for League City to include them in its competitive contracting process. All of these core programs and functions (hereafter referred to as Core Services) were found to be both appropriate and desirable for inclusion.

League City Core Services

The Core Services in League City are briefly defined as follows (using labels and order of appearance as they occur in the city's budget*):

Public Works

- **Public Works Administration:** Manages development and maintenance of the city's infrastructure.
- **Engineering and Project Management:** Conducts street and drainage maintenance.
- **Streets and Stormwater:** Maintains streets, sidewalks and drainage infrastructure.
- **Facilities Maintenance:** Provides maintenance and updating of City's buildings and facilities.
- **Traffic and Transportation:** Manages traffic design and control.
- **Solid Waste:** Provides waste collection, disposal, and environmental services.

Parks and Cultural Services

- **Parks Operations:** Maintains park facilities.
- **Park Recreation:** Manages park recreational programs.
- **Sportsplex Operations:** Manages and maintain the Sportsplex facilities.
- **Sportsplex Recreation:** Manages recreational programs for Sportsplex.
- **Park Planning:** Controls planning, development and implementation of park projects.

Finance

- **Accounting:** Manages system for billing, collection, disbursement, and reporting of city funds.
- **Municipal Courts (backroom operations only):** Provides record keeping and administrative functions in support of the Courts.
- **Purchasing:** Procures goods and services for the city.

* A copy of the City's FY 2013 adopted budget and a categorical breakdown of services can be found [here](#).

Planning and Development

- **Planning:** Provides the city with a vision and comprehensive development plan.
- **Building:** Issues permits and ensures adherence to City's building codes and ordinances.
- **Code Compliance:** Ensures compliance with City ordinances and land use requirements.
- **Economic Development:** Promotes economic development for the city and employment for the citizens.

Administration

- **Budget:** Provides fiscal control and guidance.
- **Information Technology:** Manages technology resources to provide the city with the necessary internal and external services.
- **Communications Office:** Communicates information about the city to citizens and organizations.
- **Human Resources:** Provides recruitment, staffing, employee relations and development, risk management, compensation and benefits administration, HR information management and regulatory compliance.
- **Motor Pool:** Manages internal service fund responsible for the city's fleet.
- **4B Park Maintenance and Operations Fund:** Maintains and supports the Eastern Regional Park.
- **Technology Fund:** Provides for one-time purchases of technology.

The city's budget has three components: Operating Budget, Capital Budget, and Appropriation of Fund Balance. This study considers only services that fall within the Operating Budget.

For the fiscal year 2013, the city's total budget was \$204.6 million, of which the Operating Budget amounted to slightly less than half this amount, or \$95.7 million.⁵

Within the Operating Budget, the Core Services (General Fund plus Motor Pool) make up approximately one-third of the total, or \$33.1 million.⁶

Comparison to Competitive Contracting in Cities That Use the Sandy Springs Model

The study compares costs for the Core Services of League City with the costs for other known contracts for similar services and functions. The comparison makes it possible to quantify the differences between the traditional model and the contract model and thus estimate whether, and to what extent, potential savings may be obtained from using competitive contracting.

The data on the contract cities was taken from the original contracts of five Georgia cities, plus one re-negotiated contract that occurred at the end of the original contract. The data was arrayed on a cost per capita basis and adjustments were made, as appropriate, for the differences in cost of living, population, area, and inflation.

The selection of the same core services in League City and in the existing contract cities allows for an "apples-to-apples" comparison. The comparison is based on actual numbers:

- Actual expenditures by League City; and
- Actual contracts in other cities.

Appendix C provides further details on the cost comparisons. Table 1 of Appendix C provides a summary of the costs being incurred in the departments that were considered as Core Services and amounts that could be reduced by transfer to private industry under the contract model. Table 2 provides an analysis of the personnel requirements under the current budget to determine which, if any, of the employee functions might be appropriately transferred to private industry under the contract model.

An advantage of this methodology is that there is no projection of potential "savings" based on a theoretical analysis of individual services that then have to be aggregated into the total savings. Such analyses miss the savings created by synergies and cost-sharing that are present in the contract cities model.

It is recognized that the number of contracts is relatively small for deriving the estimate of contract costs. The data are sufficient, however, to enable a high degree of confidence that the projected savings fall well within the range reported in this study. The actual savings within this range will be identified when requests for proposals (RFPs) have been issued and bids are obtained.

It is important to realize that the city will have no commitment to proceed with the conversion to the contract model during the bidding process. Once the city begins to receive the bids, it will have a firm knowledge of the potential savings and can then make an informed decision about the efficacy of moving forward with the competitive contracting process.

Findings

The findings of this report are based on an analysis of expenditures occurring during budget years 2011 to 2014. A full list of the programs and services included in the scope of this study can be found in Appendix C. The analysis was performed by Oliver Porter during the first half of 2014.

The findings are as follows:

General

The city has already taken steps to improve the efficiency of operations as indicated by the relatively flat level of operating expenditures over the past four years. With an increasing population there has been a minor decline in the operating cost per capita during that period.

As such, current operations, as demonstrated by the budgets adopted over the past years, are in general, well-managed compared to many other similar-sized “traditional” governments. However, the introduction of competition into the city’s bid process has the potential to generate substantial savings.

Leadership

Several members of the League City policy community have expressed a desire to consider a more efficient and responsive method for providing services. These leaders have indicated that they would like to cut costs in excess of 10 percent while maintaining or improving service quality.

In addition, these leaders also expressed the view that there was no service or function currently performed by the City that should be outside the scope of the contract model study, assuming that citizens could experience lower cost and/or better service.

Finally, a key concern was expressed for existing employees and a desire that they be offered opportunities for continued employment where feasible.

As demonstrated in other instances where the contract model has been successfully employed, these concerns and desires can effectively be addressed using the model.

Personnel

A detailed review of positions by departments indicates that approximately 249 employees are currently involved in work within Core Services. A large majority of these employees are vested for pensions.

Attrition of current City employees has been taking place at the approximate rate of ten percent per year.⁷

Under competitive contracting, a majority of those employees providing the Core Services would be affiliated with the private entity responsible for the contract.

The City may consider constructing contracts with private providers that make provisions for mitigating the impact on current city employees. For example: a common provision is to require the private contractor to make employment offers to a certain percentage of existing employees.

It should be noted, however, that any provisions of this nature may reduce the initial savings provided under a competitive contract. Therefore, League City council members and other decision makers should take this point into consideration before making a final determination.

Experience with contracts for similar services has shown that private sector employees can actually increase their rate of pay because of increases in their productivity (output). As a result, some of the savings realized through efficiency gains may be returned to employees in the form of higher wages and bonuses.

Projected Savings

By the adoption of the contract model for the services outlined herein, League City may expect a *reduction in core departmental costs ranging from \$30 million to \$56 million* over the period of a six-year contract. This reduction in costs represents *an annual savings of between 15 percent to 28 percent* over the current level of expenditures (\$198.6 million for six years).

The reduction in operating expenses, pensions and other benefits associated with the adoption of the contract, represents a savings of 5 percent to 10 percent in the total operating budget of \$569 million (six years), which includes the General Fund, Utility Fund, Debt Service Fund and Special Revenue Funds.

Further savings may result from the reduction in future capital expenditures for equipment, systems, maintenance facilities, and warehouses. An actual recovery of costs may occur with the sale of existing equipment.

In addition to the savings that are available above, other substantial savings, in the area of 10 percent to 20 percent of present costs, may be accrued by conversion of the Water and Wastewater Services to a private contractor (see the *Additional Services* subsection). This is also a process that Texas' local governments may already have some experience with.

According to Rep. Bill Callegari, chairman of the Texas House of Representatives' Committee on Pensions, a number of municipal utilities in Texas are already involved in various types of public-private partnerships for water and wastewater services. The savings realized by the utilities that have privatized parts of their services totals an estimated 20 percent of an entity's operating expenditures.*

The city may accrue additional revenue through the adoption of private industry Revenue Stimulation programs. In many cities the collection of lawful fees for licenses, franchises and other permits, has not been universally successful (see the *Additional Services* subsection).

Private firms have been very successful in identifying and collecting such revenue for a small percentage of the revenue. For example, Sandy Springs garnered a revenue increase of approximately \$6 million.

A reduction in city employees associated with the conversion of these additional services to private contracts is projected to save \$5.6 million in personnel overhead including retirement and other benefits over a six year period. This amount includes approximately \$2 million in pension liabilities.

How Does Competitive Contracting Reduce Costs & Improve Service Delivery? 3 Ways

When done right, competitive contracting has the potential to greatly reduce costs and improve the delivery of government goods and services. According to Wendell Cox, there are three ways that the process goes about achieving its results:

- Lower costs through provision of service at no more than the competitive rate (the "going rate"). Cost savings of 15 to 50 percent are frequent, with occasional savings of up to 75 percent. Touche Ross reports cost savings in 98 percent of cases.
- Lower direct public service costs as public agencies improve their cost performance in response to the competitive environment. Competitive contracting not only results in lower costs for the public services competitively contracted, it also induces improved internal public cost performance. This "ripple effect" has been identified in various public services, including solid waste collection, public transit, fire protection, and other services. Public employee unions have negotiated competitive wage and benefit packages in response to competitive contracting.
- Lower net costs as a result of tax revenues paid by private contractors on the public services they operate.

Source: Cox, Wendell, Competitive Contracting for More Effective & Efficient Government, Congressional Testimony by Wendell Cox before the Subcommittee on Civil Service, Committee on Government Reform and Oversight, United States House of Representatives, April 5 1995.

* Anecdotal evidence based on a private conversation that took place in May 2014.

Capital Investment and Maintenance

If the competitive contracting model is fully implemented, then city officials can expect financial pressures to be eased in the following areas:

- Reduction in the capital investment by the city for future vehicular equipment and associated assets;
- Reduction in the capital investment by the city in computer equipment and systems;
- Reduction in the capital investment by the city in maintenance facilities and warehouses;
- Possible recovery of capital by the sale of no longer needed vehicles, equipment, systems, maintenance facilities, and warehouses;
- Reduction in the cost of maintenance for equipment and systems;
- Reduction in or elimination of the cost of warehousing and parts inventories for equipment and systems; and
- Elimination of the cost of insurance on equipment, systems, maintenance facilities, warehouses and inventories.

With these dollars newly freed up, the city can apply these limited resources to other higher-priority areas.

Long-term Liabilities

The city has a major commitment for long-term liabilities as illustrated by the 2013 level of Unfunded Liabilities for Pensions and Other Benefits of \$22.2 million.

Assuming that the city fully implements the Foundation's proposal, it could reduce its required annual contribution for pension liabilities by \$2 million. If these savings are applied to its unfunded liabilities, then those long-term obligations could be almost entirely eliminated over the course of a decade.

In addition, annual expenses associated with core services for Pensions and OPEB will be reduced by over \$900,000 annually for a six-year savings of \$5.6 million.

Contract Design

Conversion to the contract model is a significant undertaking for both the city and private industry.

To properly accomplish the parallel objectives of gaining efficiency and improved responsiveness to the citizens, it will be necessary to construct a contract for a minimum of five years. To achieve maximum savings and effectiveness, a contract for a longer period may be desirable.

Contracts may contain annual renewal clauses that require a formal review of performance at the end of each year. Failure to perform by the company may result in a termination of the contract.

The maximum savings will be available through the conversion to the full scope model which includes all of the aforementioned core services.

Additional Contracting Opportunities

In addition to the savings projected for the city's Core Services, the use of competitive contracting may also allow efficiencies to be found in other areas that were not considered in this report. Two areas in particular include: the city's Water and Wastewater program and the creation of a revenue stimulation program.

Water and Wastewater

The Water and Wastewater operation in League City are managed as a utility.

The directorate consists of five operating divisions: Public Works Administration, Water, Wastewater, Line Repair and Utility Billing, with 2013 expenses of \$13.3 million. In addition, Non-Departmental Expenses and Debt Service total another \$17.1 million, which brings the annual total for this operation to \$30.4 million.

There are 89 employees involved in the provision of Water and Wastewater services.

This study does not analyze these operations. However, based on similar operations in other municipalities, savings of 10 to 20 percent might be available through the use of contracts with private industry, *while maintaining equal or better levels of service.*

Revenue Stimulation Program

League City may benefit from a program that was developed by companies for other contract cities to garner missing revenues from such sources as business licenses, alcohol taxes, franchises, etc.

The programs are normally free of up-front expense to the city. The contractor identifies the businesses that have not been paying the appropriate taxes/fees and collects the revenue. The contractor is compensated with a percentage of the newly found revenue. Programs of this type have generated up to \$6 million in additional revenue for Sandy Springs.

Recommendations

League City Should Utilize Competitive Contracting

Based on the findings presented in this report, League City may obtain significant cost savings by utilizing the contract model for an array of core services and functions. The estimated cost savings, supported by evidence from other governments that employ competitive contracting, lead this study to conclude that the City could realize a minimum savings of \$30 million and a maximum savings of \$56 million over a six-year period.

League City should Investigate Efficiencies to be Gained through Contracting Services and Functions not Considered in this Study

In particular, League City should consider the following two areas as potential for outsourcing to private firms:

- Water and Wastewater Services
- Revenue Stimulation Programs

Identify Ways to Utilize the Savings

While beyond the scope of this study, it is apparent that the Council will have a number of options to consider for utilizing any savings realized through the use of competitive contracting, including:

- Reducing taxes
- Improving services
- Increasing capital programs
- Early debt retirement
- Growing reserves to offset future costs
- Reducing the level of unfunded liabilities

Contracts under the Competitive Contracting Model should be for a Minimum of Five Years. This study recommends a contract period of six years to improve cost performance. Based on performance, an automatic extension period of an additional five years should be considered. Longer contracts may result in greater savings.

Include Appropriate Indices of Service in any RFPs

If comprehensive measurements are not available, they should be developed jointly by the City and Contractor as an integral part of the first year’s operations. Any services contract should specify that every area of service/function should continue, as a minimum, at the same or an improved level of performance.

The quality of the RFP process will be critical to generating competition and to the ultimate success of the procurement process. The selection criteria should provide a good balance between costs and other vital service factors including capabilities, implementation approach, and past performance.

Maximize Savings through Conversion to the Full Contract Model

The maximum savings will be available through the conversion to the full contract model. Components of the model may be able to offer savings but will miss the elements of synergy and cost sharing available through a full conversion.

Implement the Competitive Contracting Process Over 12 Months

A recommended minimum timeline for the conversion of the League City operations to the contract model is as follows:

MONTH	ACTIVITY
ZERO	Decision to proceed
ONE	Begin preparation of RFP’s Prepare Scope of Services Develop list of potential bidders
THREE	Issue RFP’s
FOUR	Mandatory pre-bid conference
SIX	Bids filed
SIX/SEVEN	Selection process
SEVEN/EIGHT	Negotiate final contract
EIGHT	Award contract
EIGHT - TWELVE	Implementation

Conduct Survey to Determine Citizen Satisfaction.

To accurately assess the extent to which constituent needs are being (and have been) satisfied, it is recommended that a statistically valid survey be conducted to determine levels of citizen satisfaction with major areas of the City's services. Such a survey should be conducted prior to the conversion to the contract model, which will serve as a benchmark for future evaluations. Subsequent evaluations should be made within three years after establishing competitive contracts for the provision of services.

Conclusion

Competitive contracting is a proven concept.

Cities, counties, and other local governments around the nation have demonstrated that by introducing an element of competition into the bidding process, these entities can reduce the cost of providing public goods and services while maintaining an equal or better level of services. This has advantages for both the taxpayer and the elected official as costs are reduced and citizen outlook improves.

The same success enjoyed by contracting communities in other states can be successfully achieved here in Texas too. In the case of League City, Texas, this report estimates significant savings to be had.

By fully embracing the competitive contracting process, League City can expect a reduction in core departmental costs ranging from \$30 million to \$56 million over the period of a six-year contract. This reduction in costs represents a range of annual savings of between 15 percent to 28 percent over the current level of expenditures (\$198.6 million over the same period).

With these savings, the city can embrace other policy priorities such as reducing taxes, retiring debt, or eliminating unfunded liabilities.

Using this proven method, League City can revolutionize its approach to municipal governance and go far to reduce the burden on its taxpayers while still maintaining the quality of the services it provides. ★

Endnotes

- ¹ Platz, Sharon, What is a Competitive Contract?, The Houston Chronicle, Accessed: April 29, 2014.
- ² U.S. Census Bureau, State & County QuickFacts: Sandy Springs, GA, Accessed May 5, 2014.
- ³ See <http://www.sandyspringsga.org/citizensurvey>
- ⁴ Gilroy, Leonard, Local Government Privatization 101, Reason Foundation, March 16, 2010.
- ⁵ City of League City, Texas, FY 2013 Adopted Budget, pg. 15, Oct. 1 2012.
- ⁶ Ibid.
- ⁷ Calculations of the author based on fiscal data in the city's adopted budgets.

Appendix A

The Sandy Springs, GA Model

Sandy Springs, Georgia had for over twenty years been attempting to gain legislative approval to incorporate. It was clear that Fulton County was not providing services commensurate with the tax burden on the community, and incorporation seemed to be the only solution. In late 2004, it seemed likely that the legislation to allow incorporation would pass.

Suddenly faced with the probability of legislative success, the city's leadership had to change its focus from passing legislation to the challenge of actually creating and implementing the new city.

The committee asked Oliver Porter to be responsible for the implementation process and conveyed the title of Interim City Manager, an unpaid position. Porter's first step was to form a dozen taskforces to address functions and services that were considered vital to the operation of the city.

The initial charge to every task force was three-fold:

1. Evaluate the needs of the community;
2. Determine the level of service being offered by the county and the resources being devoted to those services; and
3. Determine the resources that would be required to provide the services under the new city.

The assumption as the task forces began their work was that they would be forming the city in the traditional manner. That is, by hiring employees and purchasing or leasing materials, systems and facilities; but in March, after only two months of diligent study it became obvious that it was not possible to implement the plan in June 2005. Election of the city officials would follow in November, and the incorporation would be on effective on December 1, 2005. Under any circumstances it would be difficult to start up a city of over 90,000 citizens—at birth, the fifth largest city in the state—in that short period of time.

Sandy Springs faced even more serious obstacles. The legislation was clear that until one minute after midnight December 1, there were no funds available to start the city, and no one had the authority to hire, make contracts or any expenditure on behalf of the new city. With no funds, no staff and no authority, they could see no method by which traditional city services could be established.

At this point, it was obvious that an alternative model was required and they began to explore options.

There had been a limited number of cities that had turned to private industry for the provision of some municipal services. In most cases the services were limited to such functions as road maintenance, water works, etc. There were no examples of a city as large as the future Sandy Springs that had contracted for a package of services as broad as they were seeking. Recognizing that they were taking a risk by breaking new ground, Porter began to formulate a plan to provide all of the city's services—except for public safety, which is required to be provided by public bodies under Georgia's Constitution—through a partnership with private industry.

The first step was to convince the leadership of the organizing committee to consider the competitive contracting model. After due diligence, the organizing committee agreed to allow Porter to begin the preparation of Requests for Proposals (RFPs) that would place the broadest possible scope of services up for bid by private industry. At this point the only commitment was to explore the competitive contracting process while keeping open any other possible models.

The Power of the Sandy Springs Model

In the eight years since the introduction of the competitive contracting model, Sandy Springs has enjoyed the following fiscal benefits:

- 1) No tax increases;
- 2) No debt, with 20 percent of the operating budget devoted to capital improvements;
- 3) The amassing of a \$45 million reserve; and
- 4) No liabilities for pensions and other benefits.

The committee, led by Porter, dived into the unfamiliar task of writing the voluminous RFPs to cover the wide array of functions and services that would be required. Included were the functions of administration, accounting, finance, purchasing, information technology, human resources, and the backroom support for the police, fire and municipal courts. The services to be provided were community development (planning, zoning, permitting and code enforcement), parks and recreation, and public works (road maintenance, traffic design and waste water).

The cityhood bill was passed by the legislature and signed by Governor Sonny Perdue in late April.

The bill authorized a referendum of Sandy Springs citizens in June 2005 on the question of incorporation, which passed with a 94 percent positive vote. The people of Sandy Springs were ready for a new city, but few had a good understanding of the complexity associated with the implementation of a full-scale municipal government.

The Governor, in accordance with the bill, appointed a Commission on Sandy Springs to advise and assist in the formation of the city. Unfortunately the Governor's Commission was also without funds, staff or authority. Porter was appointed to the five-person Commission and elected to be chairman at the initial meeting on June 29. At that meeting, Porter presented the massive RFPs and asked approval to issue the requests under the sponsorship of the Commission. Showing an enormous amount of trust, the Commission voted to issue the RFPs with a response date from bidders of August 24.

In addition to the broad scope of services that companies were being asked to bid on in a very short response time, there was also a major financial risk that the firms were being asked to accept. Remember that no one had the authority to approve a contract until the elected officials were seated on December 1, 2005. The RFP clearly stated that the company that was selected would be required to spend millions of dollars to hire staff and provide materials and facilities months before a contract could be approved. In fact, there was no guarantee that the contract would ever be signed. This was the first link in the chain of trust that would be required to make the PPP work.

Companies did step up to the challenge and a thorough bid and selection process took place. A selection committee appointed by the Governor's Commission did a very effective job of analyzing and rating the bids. The company that this committee recommended was CH2MHill-OMI. The next phase—contract negotiation—was also carried out by a committee of the Commission. During the negotiations, the CH2M had already begun assembling the required workforce and selecting sub-contractors to perform a major portion of the work of providing the city's services.

To provide an idea of the tight time frame for starting the city, it should be recognized that there were only nine weeks between the recommendation to select CH2M and the December 1 start date for the city of Sandy Springs. Anyone who has ever been involved with the startup of a major operation can appreciate the difficult and complex problems that had to be overcome to create city operations to serve over 90,000 citizens in such a short period of time. Suffice it to say, the job got done and it was done very successfully.

At one minute past midnight on December 1, 2005, the newly elected Mayor and City Council were seated with a full agenda of statutes, codes, contracts and other critical matters to act upon.

Sandy Springs has been a success story. Within the first year, a large police force and fire department were established in addition to the wide scope of services provided under the public-private partnership. The city has now been efficiently running for almost a decade and the city has enjoyed numerous years of surplus revenues over expenses. The citizen response has also been overwhelmingly favorable.

In the course of its operation, Sandy Springs has paved more roads in the community than the county had in the past 20 years, created new parks, established a 125-person police force, and 89 firemen with all new equipment. The new city has vastly improved EMS capability, and has established a state-of-the-art, joint electronic 911 service with another of the new cities. Cost-sharing in many areas between competitively contracted cities has aided in keeping costs down. A much needed modern traffic control system has been installed. Local control over zoning, planning, permitting and code enforcement has been gained. The list of improvements is very extensive, and all of these changes have been introduced without tax increases. In fact, the city's taxes are lower than the taxes on the unincorporated areas of the county.

Adapting the Competitive Contracting for Existing Cities

Certainly the success of the Sandy Springs Model should be enough to create interest among existing cities and other local governmental bodies interested in reducing costs while improving service delivery. The economic and service delivery benefits are enjoyed equally by new and existing cities, though the political challenges are somewhat more enhanced in the case of the latter.

In the case of the new cities, officials can start with a clean sheet of paper, so to speak, and there are no embedded self-interest groups to overcome. Existing cities face several such elements, the most obvious being the existing work force. Unions, civil service rules, and sometimes state laws can reduce the flexibility of cities to affect any form of change. If the competitive contracting model is to maximize efficiency and responsiveness, there must be an inevitable change in the work force. However, there are ways to mitigate the impact on employees, and these must be a vital component of introducing the model.

[The appendix above has been adapted from The Reason Foundation's January 2010 study on the contracting model of governance, Public-Private Partnerships for Local Governments: The Sandy Springs Model. It has been modified from the original content.]

Appendix B

Other Contract Cities

What may surprise many local policymakers is the extent to which other communities have embraced privatization, extending the boundaries far beyond what's seen in most jurisdictions. For example, over the last four years, five new cities serving over 200,000 residents have incorporated in metropolitan Atlanta, Georgia as "contract cities." These newly incorporated cities opted to contract out virtually all of their non-safety related government services to private firms, dramatically reducing costs and improving services along the way.

Sandy Springs, Georgia was the first. Fed up with high taxes, poor service delivery and a perceived lack of local land use control, 94 percent of Sandy Springs' nearly 90,000 people voted to incorporate as an independent city in 2005. What makes Sandy Springs interesting is that instead of creating a new municipal bureaucracy, the city opted to contract out for nearly all government services (except for police and fire services, which are required to be provided directly by the public sector under Georgia's state constitution).

Originally created with just four government employees, the city's successful launch was facilitated by a \$32 million contract with CH2M-Hill OMI, an international firm that oversees and manages day-to-day municipal operations. The contract value was just above half what the city traditionally was charged through taxes by Fulton County. The city maintains ownership of assets and maintains budget control by setting priorities and service levels. Meanwhile the contractor is responsible for staffing and all operations and services. According to Sandy Springs Mayor Eva Galambos, the city's relationship with the contractor "has been exemplary. We are thrilled with the way the contractors are performing. The speed with which public works problems are addressed is remarkable. All the public works, all the community development, all the administrative stuff, the finance department, everything is done by CH2M-Hill," Galambos said. "The only services the city pays to its own employees are for public safety and the court to handle ordinance violations."

Sandy Springs recently successfully rolled out its own police and fire departments. Counting police and fire employees, the city of 90,000 has only 196 total employees. Nearby Roswell, a city of 85,000 has over 1,400 employees. Furthermore, Sandy Springs' budget is over \$30 million less, and by most accounts provides a higher level of service.

The "Sandy Springs model" seems to be gaining steam. The city's incorporation was perceived as such a success that four new cities—Johns Creek, Milton, Chattahoochee Hills and Dunwoody—have been formed in Georgia since 2006 employing operating models very similar to Sandy Springs (though severe revenue shortfalls in 2009 prompted the two smallest to scale back their contracts). And in 2008, city officials in the recently incorporated Central, Louisiana (population 27,000) hired a contractor to deliver a full range of municipal services—including public works, planning and zoning, code enforcement and administrative functions—as part of a three-year, \$10.5 million contract.

Sandy Springs and other contract cities demonstrate something very powerful from a public administration standpoint: there's hardly anything that local governments do that can't be privatized, so there's no reason policymakers shouldn't think big on privatization.

[The appendix above has been adapted from The Reason Foundation's March 2010 study on competitive contracting, Local Government Privatization 101. It has not been modified from the original content.]

Appendix C

Table 1 lists the 2013 funding currently provided by League City for a given service (first column) and the amount that would be transferred to provision by a private contractor (second column).

DEPARTMENT (FUNCTION)	2013 HEADCOUNT	TRANSFER TO CONTRACT
Public Works		
Public Works Administration	1	1
Engineering	14	14
Street & Storm Water	44	44
Facilities Maintenance	13	13
Traffic and Transportation	3	3
Solid Waste	6	0
Subtotal	71	65
Parks and Cultural Services		
Library	31	0
Park Operations	14	14
Park Recreation	14	14
Sportsplex Operations	6	6
Sportsplex Recreation	1	1
Parks Planning	2	2
Subtotal	68	37
Finance		
Accounting	10	10
Municipal Courts	9	4
Purchasing	3	3
Subtotal	22	17
Planning and Development		
Planning	9	9
Building	13	13
Code Compliance	5	5
Economic Development	2	2
Subtotal	29	29
Administration		
City Manager	4	0
City Secretary	4	0
City Attorney	0	0
Mayor and Council	8	0
Budget	3	3
IT	11	11
Communications	3	3
Human Resources	8	8
Civil service	0	0
Subtotal	41	25

continued

Non Departmental		
Personnel Services	0	0
Supplies	0	0
Repairs and Maintenance	0	0
Services and Charges	0	0
Special Programs	0	0
Capital Outlay	0	0
Transfers	0	0
Subtotal	0	0
Motor Pool Fleet Internal Service Fund	10	10
4B Park Maintenance and Operations Fund	7	7
Technology Fund	0	0
TOTAL	249	190

As displayed in **Table 1**, we focus our analysis on the \$25.2 million that League City currently pays for a bundle of services that also are provided by private contractors in Sandy Springs and the five other cities that followed its model. The authors estimate how much less it would cost to provide these same services under private contracts in League City, based on the experience with private contracts in these other cities and also taking into consideration relevant factors such as the cost of living in each location. The difference between the \$25.2 million (current expenditure for the identified services in League City) and this estimated cost (for the exact same bundle of services using private contracts) represents the estimated savings from the contracting model.

Table 2 lists the 2013 staffing provided by the city for a given service (first column) and the staff whose services would be transferred to provision by a private contractor (second column).

DEPARTMENT (FUNCTION)	BUDGET 2013 (M'S)	TRANSFER TO CONTRACT (M'S)
Public Works		
Public Works Administration	0.1	0.1
Engineering	1.5	1.5
Street & Storm Water	4.4	4.4
Facilities Maintenance	1.7	1.7
Traffic and Transportation	0.6	0.6
Solid Waste	2.8	0
Subtotal	11.1	8.3
Parks and Cultural Services		
Library	1.8	0.0
Park Operations	1.2	1.2
Park Recreation	0.6	0.6
Sportsplex Operations	0.4	0.4
Sportsplex Recreation	0.1	0.1
Parks Planning	0.3	0.3
Subtotal	4.4	2.6

Finance		
Accounting	1.3	1.3
Municipal Courts	0.6	0.2
Purchasing	0.3	0.3
Subtotal	2.1	1.7
Planning and Development		
Planning	0.9	0.9
Building	1.1	1.1
Code Compliance	0.6	0.6
Economic Development	0.4	0.4
Subtotal	2.9	2.9
Administration		
City Manager	0.6	0.0
City Secretary	0.4	0.0
City Attorney	0.7	0.0
Mayor and Council	0.2	0.0
Budget	0.3	0.3
IT	2.0	2.0
Communications	0.3	0.3
Human Resources	0.9	0.9
Civil Service	0.1	0.1
Subtotal	5.4	3.6
Non Departmental		
Personnel Services	0.9	0.9
Supplies	0.0	0.0
Repairs and Maintenance	0.0	0.0
Services and Charges	0.8	0.8
Special Programs	0.0	0.0
Capital Outlay	0.2	0.0
Transfers	3.5	0.0
Subtotal	5.6	1.7
Motor Pool Fleet Internal Service Fund	2.3	2.3
4B Park Maintenance and Operations Fund	1.3	1.3
Technology Fund	0.8	0.8
TOTAL	\$35.9	\$25.2

The estimate for personnel transfer is integral to deriving a projection of the impact on City contributions to Pensions and Other funds.

About the Authors



James Quintero is the director of the Center for Local Governance at the Texas Public Policy Foundation, one of America's premier conservative state-based think tanks. He has been with the Foundation since March 2008. During his time with the Foundation, his work has centered on: the budget, spending, debt, taxes, transparency, and pensions. Before the Foundation, Quintero was a Graduate Research Assistant at Texas State University, where he worked to educate students on financial aid and scholarships. Quintero received a B.A. in Sociology from the University of Texas at Austin and an M.P.A. with an emphasis in public finance from Texas State University.



Oliver Porter is a leading proponent of public/private partnerships (PPP's) for local government. In his role steering the start-up of the City of Sandy Springs, Georgia, he served as chairman of the Charter Commission, volunteer Interim City Manager, and Chairman of the Governor's Commission. Subsequently, Porter has served as the principal advisor to four new contract cities in Georgia, and to communities in a number of other states. His two books—*Creating the New City of Sandy Springs* and *Public/Private Partnerships for Local Governments* (AuthorHouse: 2006 and 2008) have been used as blueprints by many communities. Currently, Porter is advising communities in Japan on conversion to the PPP model.

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