

CHAPTER 4

DATA ANALYSIS

Introduction to Chapter

This chapter provides a short description of the forty sources included in the vote counting analysis used for this dissertation. This is followed by sorts of the data by level of government and by service, which is then followed by a chapter conclusion.

Descriptions of Sources about the Effectiveness of Outsourcing

The forty sources in the following Tables 4.1-3 (located at the end of this chapter) do not comprise every investigation of outsourcing ever done, but they do represent a broad cross section of the type of research that has been done concerning the effectiveness of outsourcing. These sources come from a variety of authors, across the country, from organizations with different purposes and functions.

After reviewing the forty selected individual documents, it is clear that they often gave varying types of inadequate data in incompatible forms that made it difficult to do any serious quantitative computation. While the findings cannot be statistically combined in any meaningful way because they do not meet all the criteria required for the meta-analytic accumulation of correlations procedures, they do provide some mathematical results presented in terms of the percentage of outsourcing successes and failures.

In collecting these studies, it was noted that many researchers were aware of the lack of sufficient empirical studies of outsourcing effectiveness. Further, it was noted quite often that the quality of data was lacking. For example, GAO states in one study (Source 4) that a determination could not be made regarding cost efficiency because the six federal agencies did not “1) perform sufficient up-front analyses of their baseline and projected costs and benefits and 2) routinely monitor all costs and benefits.”

Most studies did not categorize their findings as "significantly positive" or "significantly negative," but the principle embodied in the method described in Chapter 3 of this dissertation was applied to “give a sense” of the sources’ findings. In keeping with this objective, the data provided by each source was not critiqued for veracity or validity, but rather accepted at face value. It was understood that the sources were not longitudinal in nature, but rather were “point in time” pictures. Further, it was recognized that comments about improvements in quality or lack thereof could be based on a survey of customers in one instance, or counting complaints in another. In other words, no pretense is made that there is any consistency in the definition of “quality improvement” from source to source. In most cases, other than GAO reports, the sources were mute as to whether or not the costs of conducting the studies were included in the cost comparisons. All of these comments simply reconfirm that the primary inadequacy of the vote counting methodology, that data is measured in different ways, is also its strength because it allows the usage of such data that other statistical methods would not.

The following section gives a brief description of each of the 40 sources contained in this dissertation. It should be noted that whereas this dissertation makes a distinction in the usage of the terms “privatization” and “contracting out” and/or “outsourcing,” most of the sources cited make no such distinction. Despite their mixing of terms, the sources are still useful for this vote counting analysis.

Source 1: Collins, Christopher; Planning and Evaluation Section, Virginia Department of Planning and Budget; January, 1998; “Report on the Privatization Efforts of Executive Branch Agencies in the Commonwealth of Virginia. An Issue Analysis.”

This study involved all eight secretariats of Virginia State government. The Health and Human Resources secretariat was excluded since health issues, as previously explained, are not part of this dissertation. Within the remaining seven secretariats, 40 departments reported undergoing privatization initiatives covering 101 services. Some initiatives dealt with the same service. For example, both Christopher Newport University and the Virginia State Police reported contracting out for printing services. Of the 101 initiatives, 85 were reported to have resulted in lower costs, with only 16 reporting either no changes in costs or higher costs. Fifty seven initiatives resulted in improvements in the quality of service dispensed, eight resulted in lower quality service, and thirty-six resulted in no change in service quality.

The data used in this study was gathered from a survey completed by agencies within each secretariat. Actual before and after cost figures were gathered down to the dollar (no rounding). Agencies were also asked to assess whether or not the quality of

the services rendered had improved. Other than the study itself, phone conversations and e-mails with Mr. Herb Hill (herb.hill@dpb.virginia.gov) (804-786-8813) at the Virginia Department of Planning and Budget, and Ms. Peggy Robertson (peggy.robertson@ccc.virginia.gov) (804-786-0240) at the Commonwealth Competitive Council (CCC) were also utilized for information. Despite being available on line for years now, no other state government agencies nationwide utilized the CCC's COMPETE model to assess their privatization efforts.

Source 2: Berenyi, E., and Stevens, B.; State and Local Government Review, Vol 20, No 1, pp 11-20; Winter, 1988; "Does Privatization Work? A Study of the Delivery of Eight Local Services."

This study looked at the delivery of eight services by twenty cities in the Los Angeles area, for a total of 160 observations. Ten of the cities used municipal organizations to deliver the services and ten used one or more private firms. Each twenty city sample contained a representative distribution of cities by size and median family income. The authors then looked at the cost per unit of output (e.g., cost per ton of residential refuse collected) and determined that in six of eight services, the private sector cost less, while in two, there was no significant difference in cost between the two approaches to service delivery. With regard to service delivery, the authors state that "the clear finding that emerged from the data was that there was essentially no difference in service effectiveness between the public and private sector (p16)." The results of this study were further discussed by phone with Dr. Berenyi (203-226-3238) and e-mail

(gaa4@mindspring.com). Attempts to reach Dr. Stevens were unsuccessful
(bjecon@aol.com) (203-454-1700).

Source 3: Holcombe, Randall G.; Public Budgeting and Finance, Vol 11, Issue 3, pp 28-42; Fall, 1991; “Privatization of Municipal Wastewater Treatment.”

This study compared the construction costs of twenty five municipally owned and operated wastewater treatment facilities with seven privately owned facilities. After discarding the data from a privately owned facility that was a statistical outlier (Gilder Creek, South Carolina), the author states “... statistics would suggest that there is no significant difference between the cost of privatized and municipally owned and operated facilities (p40).” Quality of service was not addressed.

Source 4: General Accounting Office; GAO-02-329; March, 2002; “Desktop Outsourcing: Positive Results Reported, But Analysis Could Be Strengthened.”

This study measured whether six federal agencies involved in “seat management” had realized expected costs and benefits, and identified lessons learned. Under seat management, “contractor owned desktop (computers) and other computing hardware, software, and related services, are bundled and provided on the basis of a fixed price per unit (or seat). The GAO found that while the quality of service had improved , a determination could not be made regarding cost efficiency because the six federal agencies did not “1) perform sufficient up-front analyses of their baseline and projected

costs and benefits and 2) routinely monitor all actual seat management costs and benefits (p3).”

Source 5: Guardino, J.; University City Science Center; 1993; “Fire Protection Privatization: A Cost Effective Approach to Public Safety.”

This study looked at fire protection provided to Scottsdale, Arizona, by Rural/Metro Corporation. The study concluded that their (Rural/Metro’s) “model prevention and inspection program provides citizens with a higher degree of safety than that which is available in most communities.....At the same time, the costs are low compared to other communities (p5).”

Source 6: Keene, Wallace; Paper Prepared for the Commercial Activities Panel, June 18, 2001.

This paper addresses the taking over in 1996 of background investigations done by the Office of Federal Investigations (part of the Office of Personnel Management (OPM) under an employee stock ownership plan (ESOP). The resultant company (called U.S. Investigative Services) offered jobs to all 706 former OPM employees (680 accepted positions with the new firm). Costs to customers were lowered by 25%. USIS now does non-federal business in state, local, and private markets. Quality of service was not addressed. The employee owners were also in the final competition for the Innovations in American Government Award. These finding were further substantiated by the

Business Executives for National Security, the Center for Naval Analysis (CRM 96-123/Jan 97) and GAO (GAO/GGD-96-121R), 5 Jul 96, "Cost Analysis: Privatizing OPM Investigations."

Source 7: Pratte, T. and Maahs, J.; Crime and Delinquency, New York, pp 358-371; July 1999; "Are Private Prisons More Cost Effective than Public Prisons?"

This analysis conducted by two doctoral candidates at the University of Cincinnati looked at 33 cost effectiveness evaluations in 24 independent studies of public and private prisons housing adult males. They found that "for both mixed level and maximum security prisons, the private institutions had a lower daily per diem cost. In minimum and medium security institutions, however, the public facilities fared slightly better. However, none of the differences in costs was statistically significant (p364)." The available data precluded the inclusion of measures of the quality of service provision.

Source 8: Franciosi, R.; Goldwater Institute, Arizona Issue Analysis 148; January, 1998; "Garbage In, Garbage Out. An Examination of Private/Public Competition by the City of Phoenix."

Between 1979 and 1994, the city of Phoenix awarded 34 contracts for municipal services, all of which resulted in dollar savings. However, these savings amounted to only .1% of Phoenix's FY 1996-97 budget. The authors note, "A more enterprising use

of the process would probably yield more dramatic savings (p5).” The quality of service provided was not addressed.

Source 9: Boardman, Tom; Chief Technology Officer for San Diego County, presentation given to the Commercial Activities Panel; August 8, 2001.

San Diego County could not attract and retain information technology (IT) staff and the county would not invest in new technology. They contracted out with CSC (Computer Services Corporation) and saved 15% over seven years. At the same time, without having to invest their own money in new hardware and software, the County received 22,000 new phones, 14,000 new personal computers, and various new software and data systems. According to Mr. Boardman, “Service to employees and residents has improved beyond anything possible with internal IT staff (p7).”

Source 10: Deller, S., Hinds, D., and Hinman, D.; Agricultural and Applied Economics Staff Paper #441, University of Wisconsin, Madison; June 2001; “Local Public Services in Wisconsin: Alternatives for Municipalities With A Focus On Privatization.”

This study details the results of a 1997 mail survey sent to the clerk of all 585 cities and villages in Wisconsin. A response rate of 73% was achieved. Of these, 69% stated that cost savings were evident “in some instances” with another 15% saying they had experienced savings in all instances. Eighty two services were included in the

survey. Quality of service was not addressed in such a way as to be able to tell whether respondents were happier before or after privatization.

Source 11: Raffiee et al.; Atlantic Economic Journal, Vol 21, Issue #3, p18-30; September 1993; “Cost Analysis of Water Utilities: A Goodness of Fit Approach.” See also Raffiee et al; Water Resources Research, Vol 29, No 6, pp 1573-1578; June 1993; “Ownership and Sources of Inefficiency in the Provision of Water Services.”

This paper examines the cost behavior of 238 public and 33 private water utilities. Using data from a 1989 study of the water industry conducted by the American Water Works Association, the authors conclude that private water utilities have lower observed costs and are therefore more efficient than public water utilities. Service quality was not addressed.

Source 12: Reeger, C. LCDR; Center for Naval Analysis, CRM 97-30; July 1997; “Outsourcing TA-4J Maintenance: Cost and Quality Experience.”

This study looked at the organic level repair and maintenance of Navy’s TA-4J Skyhawk single-seat, single engine light attack aircraft which is used for the advanced training of Navy aviators. These repairs involved relatively minor problems fixable by the squadron or the contractor equivalent, as opposed to having a depot do the work. The study concludes that for the first four years of the contract, previous mission capable (MC - the plane needs work but will still accomplish the mission) and fully mission

capable (FMC - the plane needs no work) rates were not met. At the same time, cost savings were achieved. “Some of these gains could have been used to increase MC and FMC rates,” according to LCDR Reeger (p29). On the Order List (Table 4.1) this was scored as a “Yes” for cost savings and a negative for service quality.

Source 13: Cox, Wendell; Heritage Foundation Backgrounder #1389; August 2000; “Competition, Not Monopolies, Can Improve Public Transit.”

This study looked at competitive and non-competitive (private and public) bus service costs for United States metropolitan areas with populations greater than one million people in 1995. Of the 43 cities that met this population minimum, only 30 had contracted out for any bus service. All of these 30 reported cost savings, with the aggregate average cost savings being 35.4%. Quality of service was not addressed.

Source 14: Talley, Wayne and Anderson, Eric; Journal of Transport Economics and Policy, Vol XX No. 3, pp 353-368; September, 1986; “An Urban Transit Firm Providing Transit, Para-transit and Contracted-Out Services.”

This study looked at the Tidewater Transportation District Commission (TTDC) and their attempts at lowering costs of bus service through contracting out. The TTDC is a government agency chartered in the Commonwealth of Virginia to plan, operate, and regulate public transport services in Chesapeake, Norfolk, Portsmouth, Suffolk, and Virginia Beach. The TTDC established shared-ride taxi service areas and contracted with

local taxicab companies for these taxi services, resulting in lowered costs. Quality of service was not addressed. The authors make a point of emphasizing that “the threat of further contracting out of service and pressure from local government to lower costs enabled the TTDC to obtain work-rule concessions from the (Amalgamated Transit) union (p356).”

Source 15: General Accounting Office; August, 1981; “GSA’s Cleaning Costs Are Needlessly Higher than In the Private Sector.”

GAO compared the cost and productivity of cleaning of federal buildings done three ways by the General Services Administration (GSA): 1) with in-house employees; 2) by contracting out; and 3) having owners of Government-leased space provide the cleaning. GAO’s sample included at least 10% of the space cleaned by each method in four GSA regions (Washington D.C., Boston, Atlanta, and Chicago). GAO found that “GSA was paying over 50% more to clean office space with its own staff than with contractors, and almost twice what its landlords paid to clean leased Federal space (p3).” “GSA did not have good comparable data on cleaning quality, but agency officials acknowledged that most custodial contractors clean as well or better than the in-house staff (p4).”

Source 16: General Accounting Office; PSAD-81-4; December 4, 1980; “Contracting Out of Selected In-House Commercial and Industrial-Type Activities at the U.S. Military Academy, West Point, New York.”

This GAO report looked at the contracting out of four functions by the USMA. The functions were custodial services, laundry/dry-cleaning, and refuse collection at West Point, and maintenance at the Stewart Army Subpost. Savings were achieved in all but the custodial services. Quality of service was not addressed. GAO also found that questionable costs, which impacted decisions on whether or not to contract out, were sometimes included in cost comparisons.

Source 17: General Accounting Office; GAO/NSIAD-85-49; April 15, 1985; “DOD Functions Contracted Out Under OMB Circular A-76: Contract Cost Increases and the Effects on Federal Employees.”

GAO reviewed a sample of 20 functions that were contracted out by the Department of Defense. Savings were realized on 17 of the functions, despite all but one of them having subsequent contract cost increases (due to poorly written statements of work omitting efforts that were supposed to be included in the contract, and/or actual increases in workload). Two of the functions ended up with increased costs, and GAO could not determine whether savings had occurred for one of the functions. Quality of service was not specifically addressed, although contracts were re-competed on seven of the functions after the initial contractor failed to perform satisfactorily.

Source 18: Lefstein, Norman; Paper prepared for the American Bar Association Standing Committee on Legal Aid and Indigent Defendants; 1982; “Criminal Defense Services for the Poor: Methods and Programs for Providing Legal Representation and the Need for Adequate Financing.”

Dr. Lefstein of the Indiana University School of Law - Indianapolis examined the quality of representation and cost-effectiveness of contracting for indigent defense services in Clark County, Washington. He found that costs increased when the county contracted out for such services instead of relying on the public defenders office. Part of the increase was due to an unforeseen jump in the number of felony cases. Also notable was that the quality of legal representation declined. For example, more cases were settled out of court, there was an increase in guilty pleas and defendant complaints, declines in requests for expert assistance, and declines in the filing of motions to suppress evidence.

Source 19: Thomas, Charles W., PhD.; Center for Studies in Criminology and Law, University of Florida; August 21, 1997; “Testimony Regarding Correctional Privatization,” prepared for the Little Hoover Commission of the State of California.

Dr. Thomas compared the operating costs and performance of the Marana Community Correctional Facility which is operated by the Management and Training Corporation with fifteen comparable state-operated minimum security prisons in Arizona.

He found that savings due to privatization, based on his “conservative methodology,” equaled 16.66%. Quality of service was not addressed.

Source 20: Archambeault, William G., PhD, and Deis, Donald R., PhD; Louisiana State University, Baton Rouge; 1996; “Cost Effectiveness Comparisons of Private vs. Public Prisons in Louisiana: A Comprehensive Analysis of Allen, Avoyelles, and Winn Correctional Centers.”

This study looked at three relatively large medium and maximum security state prisons in Louisiana. All three facilities are designed the same, are located in comparable rural areas, and have similar prisoner populations sizes and profiles. Thus, this study controls for all of the major sources of distortions in costs between public and private facilities. Two of the facilities are managed by contractors with the other run by the Louisiana Department of Public Safety and Corrections. The authors found meaningful cost savings (12.75%) for the two private prisons taken together over five years. Quality of service was not evaluated.

Source 21: Florida State Office of Program Policy Analysis and Governmental Accountability, Report #97-68; April, 1988; “Review of Bay Correctional Facility and Moore Haven Correctional Facility.”

In 1988, the average cost to keep an inmate in one of three specific prisons in Florida was approaching \$20,000 annually. Along with overcrowding, reducing that cost

is the driving force behind the prison privatization phenomenon in Florida and elsewhere in the US. This study evaluated the costs and benefits of using contractors to run two state prisons in Florida, namely Bay Correctional Facility operated by Corrections Corporation of America, and Moore Haven Correctional Facility run by Wackenhut Corrections Corporation. The authors concluded that “although vendor performance was satisfactory, the private prisons are not providing the state with the level of overall cost savings initially projected by the (Correctional Privatization) commission (p i).” While the two private prisons are “performing satisfactorily in areas of custody, control, health services, and inmate programs.....neither vendor met the original contract requirements for education and substance abuse treatment programs (p28).”

Source 22: National Institute of Corrections, US Department of Justice; Washington, D.C.; 1985; “Private Sector Operation of a Correctional Institution: A Study of the Jack and Ruth Eckerd Youth Development Center, Okeechobee, Florida.”

This study compared the costs and quality of services provided at a state-operated juvenile facility (the Arthur G. Dozier Training School for Boys in Marianna, Florida) with a similar facility run by a private, not-for-profit organization (the Jack and Ruth Eckerd Youth Development Center in Okeechobee, Florida). The study found that “... on balance, the fiscal data seem to indicate that the Eckerd Foundation achieved no significant reduction in operational costs and no fundamental program (quality) differences (p xiii),” when comparing the two.

Source 23: Tennessee Select Oversight Committee on Corrections (February 1, 1995) and the Tennessee Fiscal Review Committee (January 30, 1995); Nashville, Tennessee; “Comparative Evaluation of Privately-Managed CCA (Corrections Corporation America) Prison and State-Managed Prototypical Prisons.”

This study conducted for the Tennessee State Legislature looked at two state-operated and one private correctional facility during Fiscal Year 1993-94. Each prison housed 1,336 inmates. The Fiscal Review Committee reported that the per diem cost for the private facility was lower than one state run facility and higher than the other. The daily operating costs of the private prison, after various adjustments for population differences and Department of Corrections Central Office Costs, were variously higher and lower than the public prisons. The authors concluded that overall, the cost differences between the two approaches to incarceration were too negligible to be significant. With regard to quality of service, the Select Oversight Committee on Corrections rated all three facilities the same for the program and activity index.

Source 24: General Accounting Office; GAO/HEHS-97-4; December 16, 1996; “Child Support Enforcement: Early Results on Comparability of Privatized and Public Offices.”

In order to analyze the cost-effectiveness of full-service privatization of child support enforcement, GAO reviewed four fully privatized local offices in Arizona, Tennessee, and Virginia. Performance was only measured at three offices due to data limitations. Specifically, this study examined the cost effectiveness of each of the offices

in locating non-custodial parents, establishing paternity and support orders, and collecting support. In each state, a privatized office was compared to a similar public office.

GAO concluded that the Virginia privatized office was 60% more cost effective, the Arizona privatized office was 18% more cost effective, and one Tennessee privatized office was 52% more cost effective, while the other was about as cost-effective as its public counterpart. With regard to performance, “fully privatized offices performed at least as well as or, in some instances, better than public child support programs (p6)” in accomplishing the missions stated above.

Source 25: General Accounting Office; NSIAD-00-107; August, 2000; “DOD Competitive Sourcing: Savings Are Occurring, but Actions Are Needed to Improve Accuracy of Savings Estimates.”

This study evaluated A-76 competition outcomes in nine case studies and whether savings were achieved. Six of the competitions between public and private entities were won by private contractors and will be focused upon here. Of those six, GAO determined that savings were likely in four cases, uncertain in one case, and unlikely in one. Much of the study is devoted to criticizing the Defense Department’s accounting techniques, especially in establishing baseline costs against which to assess savings. For example, the costs of conducting the A-76 studies were not included, thereby inflating savings estimates. As GAO says, “Neither we nor DoD could precisely quantify the extent of savings from these nine cases (p4).” The quality of service was not addressed.

Source 26: General Accounting Office; GAO-01-20; December, 2000; “DOD Competitive Sourcing: Results of A-76 Studies Over the Past 5 Years.”

For this report, GAO reviewed 286 Department of Defense A-76 studies completed since 1995 for which it had complete data as of June 2000. While no specifics were provided on each of the 286 studies, and quality of service was not addressed, GAO did reach two conclusions: 1) “Savings are being realized from the Department’s (DoD’s) competitive sourcing studies,” and 2) “limitations in baseline cost data from which to calculate savings, study costs, and other factors make it difficult to estimate savings as precisely as suggested by the Department’s report (p4).” Thus while this study is short on detail and is recorded as just one observation on the scoring sheet contained herein (see Table 4.1), it is included here because it once again brings into question the validity of savings estimates, especially at the federal government level.

Source 27: General Accounting Office; GAO/NSIAD-97-210BR; September, 1997; “Air Force Depot Maintenance: Information on the Cost Effectiveness of B-1 and B-52 Support Options.”

During the 1990s, the Air Force came to the conclusion that their Oklahoma City Air Logistics Center could not meet the full depot maintenance requirement for 23 B-1B aircraft per year without outsourcing other aircraft workload to contractors or adding additional personnel. As a result, the Air Force awarded a sole-source contract to Rockwell International Corporation, the original manufacturer of the B-1B. The contract

called for Rockwell to perform programmed depot maintenance on about five planes per year. GAO concluded that for fiscal years 1995 and 1996, the Air Force paid twice as much for each B1-B aircraft repaired by Rockwell than they would have at their Air Logistics Center. Confronted with this dramatic difference in costs, Rockwell lowered their costs for fiscal years 1997 and 1998. Despite this reduction, GAO estimated the AF would still have saved money if the work had been brought back in house. Quality of service was not discussed. (Note: The B-52 part of this GAO review was all hypothetical and not useful for this dissertation).

Source 28: General Accounting Office; GAO/NSIAD-98-35; December, 1997; “Air Force Privatization-In-Place: Analysis of Aircraft and Missile Guidance System Depot Repair Costs.”

The Air Force Aerospace Guidance and Metrology Center (AGMC) in Newark, Ohio, was closed as a result of the 1993 Base Realignment and Closure (BRAC) Commission decisions. While the Navy and Army moved all of their workload that had been done by AGMC to other sites, the Air Force only transferred some of their work. The remaining work remained at the newly privatized-in-place center now called the Boeing Guidance Repair Center (BGRC) and run by Boeing North American, Inc. and Wyle Laboratories. GAO determined that unit costs were higher for 201 out of 254 items repaired by BGRC, and overall, repair costs increased by about \$6 million for these 254 items. Quality of service was not addressed.

Source 29: General Accounting Office; GAO/NSIAD-99-44; February, 1999; “DOD Competitive Sourcing: Results of Recent Competitions.”

This GAO study reviewed 53 A-76 competitions completed between October 1995 and March 1998 by various organizations within the Department of Defense. Because of ongoing concerns about the reliability of the CAMIS (Commercial Activities Management Information System) database used by DoD, GAO contacted the contracting officials or officials in charge of each of the 53 completed cases to verify information. Of the 53 competitions, 21 were won by the most efficient organization (MEO) and thus remained with the government. Of the remaining 32 competitions, five had been previously discussed in other GAO reports included in this dissertation, and thus were not counted again. Of the 27 remaining competitions of interest to this dissertation, all projected some savings. GAO concluded that “these competitions show the potential for significant savings; however, various factors cause the initial savings projections to be imprecise. How well the level of savings will hold up over time remains to be determined, as work requirements and costs change (p16).” Quality of service was not specifically addressed.

Source 30: Osborne, David and Plastrick, Peter; 1997; “Banishing Bureaucracy: The Five Strategies for Reinventing Government,” Addison-Wesley Publishing Company, Reading, MA, pp120-124.

Instead of selling off the Advance Wastewater Treatment facilities, Indianapolis Mayor Steven Goldsmith contracted for operations and maintenance of its two wastewater treatment facilities with the White River Environmental Partnership (WREP), a consortium of JMM Operational Services, Inc.; Lyonnaise des Eaux; and IWC Resources, Inc. While the city still owns the buildings and equipment and is responsible for capital improvements and modernization, WREP is responsible for day to day operations and corrective, preventive, and predictive maintenance. In the first year of operations, the contractor saved the city 40%, accidents were reduced 70%, union grievances fell from 38 to 1, sick time declined, and violations of effluent laws declined by 86%. “WREP has maintained wastewater quality, and in several respects, it has improved on the city’s high quality performance of prior years (Osborne, 1997, p123).”

Because of a “profit-sharing” clause of the contract, WREP has an incentive to develop new ideas to save money or generate income for the facilities. This is an approach that is becoming more popular with both government agencies and contractors. One area of concern was that some of the displaced public employees who were not hired by WREP are now working for the Indianapolis city government as quality assurance inspectors, sometimes overzealously so.

Source 31: Byrnes, P., Grosskopf, S., and Hayes, K.; Review of Economics and Statistics, Vol 68, No 2, pp 337-341; 1986; “Efficiency and Ownership: Further Evidence.”

This study looked at data from the American Water Works Association for 68 government-owned and 59 privately owned water utilities operating in the United States. The authors purposely eschewed cost effectiveness and instead, using analysis based on linear programming procedures, focused on technical and scale efficiency. The output of each utility was measured by millions of gallons of water distributed from inputs including gallons of purchased, ground, and surface water used; miles of pipeline; water storage capacity; and full-time labor. The authors found no significant difference in efficiency across ownership types.

Source 32: Korosec, R. and Mead, T.; Policy Studies Journal, V24 n4 pp 641-649; Winter 1996; “Lessons From Privatization Task Forces: Comparative Case Studies.”

This study looked at the privatization tactics of two cities in North Carolina, Charlotte and Raleigh. Charlotte contracted out for one fourth of the city’s requirement for solid waste collection. The City Council did not allow the City’s Solid Waste Department to bid, but they did submit a “benchmark” cost estimate for how much it would cost them to deliver the service. The authors concluded that the cost of the changes necessitated by the contracting out, such as re-doing sanitation routes and schedules, was roughly equivalent to the savings. Quality of service was not addressed. Raleigh’s attempts at privatization never really got started, unless one considers a property tax cut to be privatization.

Source 33: Zager, M., et al.; Journal of Public Budgeting, Accounting, and Financial Management, Vol 13, Iss 2, pp 222-244; Summer, 2001; “Symposium: Prison Privatization and Public Budgeting.”

This study looked at 121 articles regarding prison privatization. Of these, 64 provided information on partial and full privatization costs. Of this, 41 cited empirical research. Unfortunately, many of these 41 articles cited the same 20 studies. Of these 20, three have been cited previously in this dissertation (Archambeault and Deis #20, Thomas #19, and Tennessee Legislature #23). Of the remaining seventeen studies examined, eleven reported a cost advantage for privatized prisons, three reported a cost advantage for public prisons, and three reported no difference either way. The authors caution that while “most of the current empirical research and the general literature suggest that privatization can have cost advantages cost comparisons are difficult to make, and the process must be individualized by jurisdiction (p235).”

Source 34: Feigenbaum, Susan and Teeple, Ronald; The Review of Economics and Statistics, Vol 65, No. 4, pp 672-678; Nov 1983; “Public Versus Private Water Delivery: A Hedonic Cost Approach.”

This study looked at American Water Works Association data from 57 private and 262 government water companies. The authors looked at the cost of operation and maintenance, and administrative outlays, but excluded taxes, debt payments and depreciation. They found no significant differences in the cost functions of government

versus private operations. Quality of service was not addressed, although the authors do comment that there is no significant difference in the relative efficiency of government versus private firms.

Source 35: Chi, Keon and Jasper, Cindy; Council of State Governments' Center for State Trends and Innovations; 1997; "Private Practices: A Review of Privatization in State Government."

This review reflects the findings of a 1997 national survey of activities by state governments. State respondents included auditors, budget directors, comptrollers, and directors of fifteen executive branch agencies who were asked questions about privatization within their agencies. "Though officials privatize services to save money, the figures reported by survey respondents do not indicate impressive savings," according to the authors (p4). Twenty eight percent of respondents reported less than one percent savings, with another 34.3% reporting savings of only between one and five percent. In other words, nearly two thirds of respondents reported minimal savings. Interestingly, the same lack of confidence that the General Accounting Office has in the savings data provided by federal government agencies is also present with state government data. The authors say, "Indeed, a majority of state respondents could not estimate the percentages of cost savings from privatization (p5)." Quality of service was not addressed.

Source 36: American Federation of State, County, and Municipal Employees (AFSCME), AFL-CIO; 2003; “Government for Sale: An Examination of the Contracting Out of State and Local Government Services,” Seventh Edition.

This compendium of case studies about what AFSCME calls the “elusive benefits” from contracting out is provided here as a partial offset to studies from more conservative, pro-privatization organizations (e.g., the Heritage Foundation, Goldwater Institute) previously cited in this dissertation. AFSCME has always “maintained that contracting out often results in higher costs, poorer quality of service, increased opportunities for corruption, and diminished government flexibility, control, and accountability (p2).” AFSCME uses reports from eight various state and local agencies (e.g., the New Jersey State Commission of Investigation, the Palm Beach County School Board) to show how some outsourcing contracts resulted in no savings and/or in poorer quality of service.

Source 37: Eggers, William, and Ng, Raymond; Reason Public Policy Institute (RPPI); October, 1993; Policy Study No. 168, “Social and Health Service Privatization: A Survey of County and State Governments.”

RPPI gathered social services data from 29 states and 15 of the country’s twenty-five most populous counties. These governments were asked about the outsourcing of such services as adoption, child welfare programs, and drug and alcohol treatment. About a quarter of the agencies reported savings of about 10%-20% while the remaining

three quarters of agencies reported savings of 10% or less. Insufficient competition in bidding for contracts was cited as one possible reason for the lower than expected savings. Quality of service was not addressed.

Source 38: Berkowitz, Bill; Applied Research Center; 2001; “Prospecting Among the Poor: Welfare Privatization.”

This report looks at the performance of some of the larger corporations taking advantage of what the author calls the “modern-day gold rush” otherwise known as the privatization of welfare. The author finds that Maximus, Lockheed Martin, Curtis and Associates, and America Works, all have generally underbid, over promised, and failed to deliver. Costs have not decreased, the quality of services has declined, and corruption has run rampant.

Source 39: Allen, Morris; Paper Presented to the 13th Annual California Water Policy Conference; November 19, 2003; “History of Stockton Metropolitan Utility District (MUD) Privatization.”

This paper discusses what happened when Stockton, California, at the behest of a forceful mayor and city manager, and a compliant City Council, forced the MUD to become privatized. The experience: 1) ended up costing MUD more money than it would have if MUD had not been privatized; 2) resulted in all of the city’s bargaining units, except police and fire, filing unfair labor relations claims which the city settled out

of court by making cash payments to affected employees; and 3) caused such a “brain drain” that for MUD to take back responsibility for the utilities became “impossible” after just two months of privatization. Quality of service was not addressed.

Source 40: Public Citizen; Public Citizen’s Critical Mass Energy and Environment Program, Washington D.C.; October, 2001; “Water Privatization: A Broken Promise. Case Histories from Throughout the United States.”

This compendium of thirteen case histories details the problems encountered by various localities as they undertook the privatization of their water utilities. In five cases, all had experienced no savings and at least one of the following problems was cited: contractors were paid for work not done; operation and maintenance levels were not maintained resulting in problems of debris in the water, rusty water, meters not being replaced, sewer lines not being cleaned, dry or inoperative fire hydrants, slow installation of water meters, raw sewage being diverted to the Mississippi River, and city-wide low water pressure. In one case (San Francisco) a firm (Bechtel) was hired to provide consultancy about the city’s utilities that was either not done, duplicative of what city workers were already doing, or not specialized enough to require a highly paid outside consultant. The remaining seven cases all involved rate disputes or “estimated/potential” savings instead of after-the-fact, documented savings.

Sorting of the Data

Having described each of the sources and scored the raw data on the Order Sheet (Table 4.1), the results were then sorted by Government Level (Table 4.2), and then Type of Service (Table 4.3).

Conclusion

Now that each source used in this vote counting study has been summarized in tabular form and sorted for analysis by government level and by service type, it is time to analyze the results to determine whether or not outsourcing has been effective in terms of saving money and/or providing higher quality of services.