



Montgomery County Government

REVIEW OF THE PROCESSES TO IMPLEMENT THE COUNCIL'S POLICY DIRECTIVE ON CONTRACTING

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Responses to OLO Request for Information:

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EXECUTIVE SUMMARY

In the spring of 1992, the County Council adopted a resolution to establish a policy on contracting with private providers for delivery of government services. The policy requires each agency for which the Council has budget review and appropriation authority to:

- continually evaluate new and existing services and programs for possible contracting out;
- perform initial analysis using criteria suggested in the resolution; and
- report on their efforts in conjunction with the annual budget submissions.

The purpose of this project was to review the various agencies' compliance with requirements contained in the Council's resolution. As a result of this examination, the Office of Legislative Oversight recommends:

- The Council's Management and Fiscal Policy Committee should review formats used by the various agencies to report on contracting efforts, receive comments and suggestions from agency administrators and Council staff, and determine whether existing requirements should be modified and/or expanded.*
- As part of its review of the reporting requirements, the Management and Fiscal Policy Committee should determine the appropriate level of monitoring to be conducted by Council and staff.*
- The Council should consider appropriating funds to a Non-Departmental Account to be managed by the Legislative Branch. This account would be used for consultant assistance in identifying and allocating program costs or performing other financial analyses when requested by an agency or assigned by the Council.
- When appropriate, the agencies should seek volunteers to participate in their contracting reviews. Each agency should develop a list of volunteers willing to either directly assist in analyzing programs and activities for contracting out or to independently review the in-house analyses. The various department and office staffs should be requested to contribute by identifying skills and experience relevant to analysis of their programs.
- The Council should continue to encourage agencies to explore opportunities to contract out government activities whenever services can be provided more efficiently or effectively by the private sector. Special emphasis should be placed on contracting reviews for all new programs or expansions to current government programs. Comparative analyses should be performed and submitted to the Council to justify any proposals for new or expanded programs.

* OLO will work with appropriate agency staff and bring suggestions to the MFP Committee on reporting formats and monitoring to be conducted by Council and staff.

I. AUTHORITY, SCOPE, METHODOLOGY, AND ACKNOWLEDGEMENT

A. Authority

Council Resolution No. 12-1202, FY 1994 Work Program of the Office of Legislative Oversight, adopted July 13, 1993.

B. Scope

On March 31, 1992, the County Council adopted Resolution No. 12-596, Contracting with Private Providers to Deliver Government Services, to establish a policy on contracting with private providers for delivery of government services (see copy of Resolution No. 12-596 at ATTACHMENT A). The policy requires each County agency for which the Montgomery County Council has budget review and appropriation authority to continually evaluate new and existing services and programs for possible contracting. The resolution also directs that certain criteria should be used by County agencies to judge whether a program or service is appropriate for contracting out.

The purpose of this Office of Legislative Oversight (OLO) project was to examine the processes used by various County government agencies to implement the Council's policy directive on contracting. As part of the project, OLO examined the criteria used by the agencies to identify potential programs and services for contracting. The study also included a review of the processes followed to evaluate the potential for contracting and deciding which programs and activities would be contracted, and how these decisions are being implemented by the various agencies.

C. Methodology

This project was conducted by Joan M. Pedersen and assisted by Linda S. Kovner, Public Administration Intern. Research activities included:

- Review of Resolution No. 12-596, Contracting with Private Providers to Deliver Government Services, to identify Council directives and requirements.
- Review of various reports and studies examining the advantages and disadvantages of public agency contracting with private vendors for service delivery.
- Review of selected reports prepared by County agencies on certain government services and activities reviewed for possible contracting.
- Analyses of responses to an OLO inquiry directed to each County agency for which the Montgomery County Council has budget review and appropriation authority.

- Interviews with Council support staff; management and staff of Executive departments/offices (Management and Budget, Procurement, Economic Development, Health, Finance, Transportation, and Family Resources); and administrators and staff of the various County agencies (Washington Suburban Sanitary Commission, Montgomery County Public Schools, Montgomery College, Maryland-National Capital Park and Planning Commission, and the Housing Opportunities Commission).

D. Acknowledgements

The Office of Legislative Oversight (OLO) acknowledges the prompt and courteous cooperation received from administrators and staff of the various County and bi-County agencies. Special thanks to the Executive Branch Office of Management and Budget, and especially to David Bernstein for his extensive input to this project.

II. DEVELOPMENT OF A CONTRACTING PROCESS FOR COUNTY AGENCIES

A. Background

In May 1990, the County Council appointed the Commission to Review the Efficiency and Effectiveness of Government. This Commission was convened to examine programs and operations of the County government and its major agencies. The focus of the Commission's mandate included review of Montgomery County Public Schools (MCPS), Montgomery College, and the County portion of the Maryland-National Capital Park and Planning Commission (M-NCPPC).

During its review, the Commission noted a tendency by jurisdictions throughout the country to enhance the effectiveness and efficiency of programs and activities by acquiring assistance from the private sector. In regard to privatization of government programs and activities, the Commission developed eight recommendations on contracting with the private sector for delivery of County services, and one recommendation on private financing of public infrastructure.

During March 1992, the Council's Management and Fiscal Policy Committee (MFP) held two worksession on the Commission's recommendations for contracting of government services and activities. Using the Commission's recommendations as a framework, the MFP Committee formulated a process for agencies to follow when determining the feasibility of engaging the services of the private sector to provide various government services. The Committee also developed criteria for agencies to use when evaluating whether to contract a service or activity.

The MFP Committee's efforts culminated in Council adoption on March 31, 1992 of Resolution No. 12-596, Contracting with Private Providers to Deliver Government Services, to provide formal guidance to County government agencies. The Council's directive has been applicable for the FY94 and FY95 budget seasons.

B. Directives Contained in the Resolution

The Council's resolution directs that each County agency, in conjunction with its annual budget submission, provide a list of existing programs and services expected to be analyzed for contracting during the next fiscal year. In addition, a list is to be submitted that contains a description of new or proposed expansions to programs/services together with recommendations on whether to contract with private providers for these programs/services.

The resolution further directs that agency recommendations be based upon initial analysis using criteria suggested in the resolution. For those programs and services identified as having potential for contracting out and requiring further analysis, the agency submissions are to identify the agency or office responsible for conducting the analysis and suggest a time schedule for completion of the study.

On July 8, 1992, Council staff hosted a meeting to which all agencies were invited. The purpose of the meeting was to answer any questions on requirements or implementation of the Council's directive on contracting for government services. The participants were also encouraged to be prepared to express ideas on how the agencies might work together to implement the policy on contracting. On September 17, 1992, the Council's Management and Fiscal Policy Committee held a worksession for agency representatives to brief the Committee on implementation of contracting and other Council directives initiated to reduce the cost of government.

III. REVIEW OF AGENCY COMPLIANCE WITH REQUIREMENTS

The Council's resolution requires the administrative officer of each County and bi-County agency to annually identify programs to be evaluated for contracting potential by the agency during the next fiscal year. The resolution also includes criteria recommended by the Council for agencies to use when evaluating whether a program or activity is an appropriate candidate for contracting out. After performing preliminary analysis, the agencies are required to submit recommendations to the Council as a component of the annual budget submission.

The agencies' recommendations are to include descriptions of any existing programs and services which the agency plans to further analyze for contracting out. For any newly proposed or recommended expansion to a program/service, the agencies are to suggest whether the program/service should be considered for contracting out (based on preliminary analysis), or whether further study will need to be performed.

As part of this study, OLO contacted the various County agencies and requested an update on contracting review efforts. In response to OLO's inquiry, most of the agencies indicated that the criteria included in the Council's resolution were used to determine which functions, activities, and programs may be appropriate for contracting out. One agency had already developed in-house criteria which was similar to the Council's recommended criteria. In most of the agencies, the various offices and departments had

been instructed to review their programs to identify any activities where enhanced service, cost savings, or other such benefits or efficiencies might be achieved through contracting with the private sector.

A. Identifying Services/Programs/Activities to be Evaluated

This section briefly describes the efforts by the various agencies to comply with the Council's directive on contracting and methods employed to identify programs, services, and activities having a potential for contracting as an alternative to in-house service delivery.

1. Executive Branch

The Executive Branch's Office of Management and Budget (OMB) included direction in its FY94 and FY95 Budget Preparation Manuals that reminded offices and departments of their responsibility to identify programs and activities for potential contracting and provided instruction on methods for reporting on their efforts. Otherwise, it was generally left to the individual departments and offices to decide how to best implement the Council's directive on contracting.

Some of the larger departments established a committee to review programs and activities department-wide and identify those services that appeared most appropriate for contracting. Other departments performed division-wide reviews. A few departments instructed their division chiefs to assign program staff to review and identify activities or sub-activities for potential contracting. At least one department included contracting reviews as a specific requirement in formal work programs for its managers, and required follow-up by the division chiefs and review by the department director. In the smaller offices and departments, the program reviews were generally performed by either the director or assigned to an administrative assistant.

The departments and offices contacted by OLO as part of this study indicated that the criteria contained in the Council's directive was used to assist in the evaluation of whether a program would be appropriate for contracting out. Since little funding was available during FY94 for consultant assistance in performing further analysis of potential contracting models, any follow-up review and analysis was generally performed by department staff. Several administrators interviewed during this project indicated to OLO that the necessity to use department staff to review and analyze their own programs may represent a weakness in the process, and that consultant assistance with reviews and analyses may be desirable.

2. Maryland-National Park and Planning Commission

The Maryland-National Park and Planning Commission has staffed a study group under the Central Administrative Services (CAS) Division of the Planning Board to identify functions to be considered for contracting out. The CAS Study Group remains active, and its membership is comprised of representatives of both Montgomery and Prince George's County Councils, both

Council staffs, and the Chair and Vice Chair of the Commission. With assistance from agency staff, the CAS Study Group has recently examined central administrative functions and activities for possible contracting, and identified a number of activities for further study.

In addition to the Council's recommended criteria, M-NCPPC staff suggested that it may be beneficial for agencies to examine methods used by the private sector in providing services. Such examination would provide a basis for determining whether the agency could become a more cost effective provider and actually compete with the private sector.

3. Montgomery County Public Schools

As part of its FY94 budget development process, Montgomery County Public Schools (MCPS) directed non-school administrators to review alternative ways to deliver their services, including contracting of programs and activities. Several activities were identified for further analysis, and some of the required studies were completed during FY94. As a result of these efforts, the Board of Education recently approved contracts for a number of activities, such as processing of medical claims, developing computer applications for specialized purposes, and managing the school energy rebate program.

For FY95, MCPS concentrated its review on three specific program areas (transportation, plant operations, and maintenance), and additional analysis of various activities have either been recently completed or are near completion. MCPS expects that any changes to private provision of services will be tested and evaluated prior to full implementation. For instance, the agency is planning to move forward during FY95 with a pilot program to contract building services in one school cluster.

4. Montgomery College

For Montgomery College, all campuses and areas of the college are represented on a Budget Resource Group. This group has been assigned responsibility to annually review activities and services and suggest areas that should be considered for contracting or privatization strategies. An official of the Finance or Budget Office reviews the suggestions forwarded by the Budget Resource Group and provides recommendations to the College President on activities and services appropriate for further study. The College noted that the Council's directive has served to formalize their existing process of periodic review and has assisted in focusing their efforts.

5. Housing Opportunities Commission

The Housing Opportunities Commission (HOC), during the FY94 and FY95 budget processes, provided the Council with information on all contracting efforts relating to County-funded programs and activities. Although HOC indicated there are no new areas being considered for contracting out in FY95, agency staff has been committed to periodic review of contracting options for specific services. While HOC does not specifically follow the Council's criteria to evaluate whether a program or activity is appropriate for contracting out, the agency's in-house criteria include similar areas of review.

6. Washington Suburban Sanitary Commission

Washington Suburban Sanitary Commission (WSSC) staff have recently been directed by the Commissioners to identify up to one percent of the total budget (approximately \$6.0 million) for possible privatization through contracting. In January 1994, WSSC staff was specifically instructed by the Commissioners to perform an agency-wide program review and report results and recommendations for consideration during the FY96 budget cycle.

B. Agency Reporting on Implementation of the Directives

Resolution No. 12-596, Contracting with Private Providers to Deliver Government Services, requires that each agency perform preliminary analysis of programs and services for potential contracting out and report annually as part of its budget submission. The resolution specifically requires the following reports be submitted.

1. A list of existing programs and services expected to be analyzed for contracting during the next fiscal year with a recommended time schedule and assignments for follow-up work.
2. A list describing new or proposed expansions to programs or services together with recommendations on whether to contract with private providers. If recommended for further study, the agency is required to identify the appropriate office to conduct the analysis.

The Council's resolution also directs the Office of Legislative Oversight (OLO) to monitor compliance of the various County agencies with regard to the required submissions.

For FY94, contracting information was submitted in the recommended budget documents of many of the County agencies. OLO reviewed the budget documents and noted that some of the agencies reported in fairly broad terms, while others provided some level of detail on contracting efforts. Most information on contracting initiatives that was included in the agencies' FY94 recommended budgets was presented in narrative form rather than in list format. Only the Executive Branch provided the Council with lists as required in the resolution on contracting. The Executive Branch submission included detailed information on contracting efforts in the form of two lists: (1) new and expanded programs identified for possible contracting, along with recommendations as to whether the program or activity should be accomplished with in-house staff or through contracting; and (2) existing programs and services which were identified for potential contracting and recommended for further analysis.

More detailed information on contracting efforts was requested by Council staff as part of the FY94 budget threshold questions, and the information was included in staff packets prepared for Council worksessions. As part of its monitoring efforts, OLO also contacted certain agencies and requested additional information. With the additional information submitted in response to the OLO request and the Council's threshold questions, all agencies can be considered to have provided some level of reporting on contracting efforts.

Most agencies enhanced and expanded their reporting of efforts on contracting initiatives as part of the FY95 budget submissions. As in the previous year, most of the information included in the FY95 recommended budgets was submitted as narrative rather than in list format. However, the Executive Branch again provided detailed information on contracting efforts in the form of two lists.

Detailed information on contracting was again requested from the various agencies by Council staff as an FY95 budget threshold question, and the agency responses were included in the Council packets for consideration during budget worksessions.

As part of this project, OLO also requested an update on contracting reviews performed or planned by the various agencies. A copy of the OLO request for information is included in this report at Attachment B. Responses to the OLO inquiry (including any appropriate attachments) are also included as follows:

<u>Agency</u>	<u>Location</u>
Executive Branch	Circles 1-12
Montgomery College	Circles 13-16
Montgomery County Public Schools	Circles 17-22
Housing Opportunities Commission	Circles 23-26
Washington Suburban Sanitary Commission	Circles 27-32
Maryland-National Capital Park and Planning Commission	Circles 33-41

Note: To avoid confusion, circled numbers rather than attachment references were used for the agency responses attached to this report because some agencies had included attachment references within their responses.

IV. RELATED MATTERS

A. Contracting As A Management Philosophy

The philosophy of providing programs and services through contracts is not new to Montgomery County government. During the 1980s, the Executive Branch embraced contracting with the private sector as a method of controlling the size of the workforce. From 1983 through 1987, a number of County government programs and services were reviewed and several activities identified for conversion to contracting. Many of the programs and activities converted at that time are still provided through contractors today.

Because there are considerably more programs and services performed by the various offices and departments of the Executive Branch of government, opportunities for contracting are more prevalent in general government than within the other County agencies. Although other agencies use contracting to provide certain government services, the majority of activities converted to contracting during the 1980s are administered by the departments and offices of the Executive Branch. Examples of Executive Branch programs and activities converted to contracting during the 1980s include:

- parking violations enforcement; meter collections; maintenance of parking lots and garages; snow plowing; and lot sweeping (Parking Lot Districts).
- loading alcohol products on delivery trucks (Liquor Control).
- physician and dental services; psychological testing; and accounting services (Corrections and Rehabilitation).
- towing services; weekend security of maintenance depots; roadside mowing; weed control; tree planting; sidewalk construction; road paving; curb and gutter construction; and street sweeping (Transportation).
- refuse and newspaper collection; refuse hauling; operation of landfill; and water quality monitoring (Environmental Protection).
- tourism development programs and marketing activities (Economic Development).
- sports clinics; sports instructors and officials; seniors classes and services; theater staff and instructors; and classes and programs in special services and therapeutics (Recreation).
- meals for seniors program services; management of nutrition sites; alcoholism and drug abuse treatment services; physician, dental, and counseling services; group home care for adolescents; and emergency shelters for the homeless (Family Resources).
- operation of low-ridership bus routes for the Ride-On Program (Mass Transit).
- dental, physician, and visiting nurse services; hearing and vision testing in schools; case management and treatment for abuse victims; needs assessments for special populations; vocational development services; and program evaluations and peer reviews of programs (Health).
- claims service administration and employee medical exam services for Risk Management; internal control reviews and audit services - financial, operational, and computer systems (Finance).
- carpentry, painting, electrical, plumbing, and HVAC repair services; facility cleaning; and mowing, landscaping, and grounds maintenance (Facilities and Services).
- retirement fund investment management and actuarial services; position classification studies; employee counseling program; handicapped training and placement program; and employee training programs and seminars (Personnel).

- tree stump removal; leaf collection and composting; weed control, mowing, and landscape maintenance; street sweeping; sidewalk repair; and tree planting, maintenance, and replacement (Suburban and Urban Districts).
- school crossing guards; towing services; and operation of the abandoned vehicle lot (Police Department).

With a change in administration and turnover in managers in several departments and offices, emphasis on contracting lessened in the late 1980s. However, revenue shortfalls, combined with shortfalls in State aid, caused Montgomery County to view contracting with renewed interest as a method of reducing the cost of government.

The current emphasis on contracting for provision of government services is a County Council initiative which focuses on all agencies of government, rather than predominately on the Executive Branch. Although the Council is interested in reducing the cost of government through contracting whenever possible, program quality and service delivery are to be maintained. The Council is also interested in contracting at the same cost as in-house operation whenever services can be enhanced or other efficiencies achieved through private sector operation.

B. Analyzing the In-House Cost Versus Contractual Cost

There is considerable literature available on costing government programs and activities for comparison with contracting models. There are currently two divergent schools of thought on the method which should be used to determine relevant costs for the analysis:

- 1) All-inclusive - this theory insists that all costs be identified, assessed, and allocated to determine the full cost of the program. Any new costs identified are included as a contracting expense comparison of contracting versus in-house operation.
- 2) Incremental - under this theory, direct program costs and indirect or ancillary costs that may change need be considered along with any new costs associated with contracting. The changes in each cost are then netted against new costs and compared to the contract cost.

The all-inclusive proponents believe it is necessary to not only include the direct costs of the program or activity, but to allocate indirect costs and depreciation of assets. In addition, the value of any possible ancillary activities should be allocated to the program to determine the full cost for comparison with possible contracting models.

The next step in the process would require assessment of each identified cost to determine whether the expense would continue without change, could be eliminated entirely, or would increase or diminish (and to what extent) if the service were to be provided via contracting. This method of analysis is very complex and time-consuming, and best performed by individuals with education, and experience in managerial and cost accounting principles and applications.

The incremental proponents believe the analysis process should begin with an analysis of the changes to direct costs of the activity that would occur if contracted out. Next, determinations would be made whether and to what extent any indirect or ancillary costs may be affected. If these costs are not expected to change, they need not be researched further or allocated for purposes of the analysis. However, those costs expected to change under a contracting scenario must be analyzed to determine the extent to which the expense would increase or decrease.

A tally is then made of all expected cost differences to determine the net change expected from contracting the activity. If the agency expects to incur new costs when contracting an activity, an estimate of those expenses would also be included in the tally. When completed, the tally represents the break-even point for contracting the service. This approach to the analysis is fairly simple and can be quickly and easily applied to initially determine the financial feasibility of contracting.

Any one-time costs associated with start-up for expanded service centers or transition to contracting also need to be identified. It is important to consider the one-time expenses when judging the potential financial benefits of contracting, since the costs must be recovered over the life of the contract. If extensive, the cost of start-up and/or transition will influence the period of time for which the activity should be contracted to derive financial benefits.

C. Independent Review of Contracting Analyses

Council members have expressed concern that use of agency staff to review in-house programs and activities for conversion to contracting may limit objectivity of the analysis. Department staff may fear potential change, wish to maintain in-house operation, and approach the analysis with a negative viewpoint toward contracting. In addition, program staff may be reluctant to jeopardize the jobs of friends and co-workers.

Contracting analyses would be most objective if performed either exclusively by or with assistance from independent consultants. When funds are not available to obtain consultant assistance, the agency may obtain a fairly object analysis by forming a study group comprised of agency staff and knowledgeable volunteers. A group composed of individuals with a variety of skills and experiences would help to ensure an objective and comprehensive approach to the analysis.

The majority of recent contracting reviews performed by the various agencies have been accomplished exclusively by assignment to in-house staff. An agency may follow a process whereby the staff recommendations are reviewed by the department director or other senior manager. However, the assumptions used in the contracting analysis are not generally reviewed by an evaluator who is independent of the agency and experienced in cost allocation and risk assessment.

V. FINDINGS AND RECOMMENDATIONS

Finding 1. All County agencies have reported on contracting review efforts as part of their FY94 and FY95 budget submissions and in response to budget threshold questions. However, each agency reported differently and at various levels of compliance with the requirements contained in the Council's directive. A review of the various agency formats would assist the Council to determine the adequacy of the existing requirements and to devise a single reporting mechanism.

Recommendation 1. The Council's Management and Fiscal Policy Committee should review formats used by the various agencies to report on contracting efforts, receive comments and suggestions from agency administrators and Council staff, and determine whether existing requirements should be modified and/or expanded. (For instance, it may be helpful to also receive information relating to existing contracts and the extent of contracting as a percentage of a particular operating budget.)

Finding 2. There has been a duplication of effort in monitoring agency's reports on contracting review efforts. Each year since the Council adopted its resolution on contracting out, the agencies have been required to report within their budget submissions and later provide additional information as part of the budget threshold questions. The agency responses were submitted to the Legislative Analysts and included in the appropriate Council Committee packets. In addition, the Council's resolution requires the Office of Legislative Oversight to monitor agency compliance with reporting requirements.

Recommendation 2. As part of its review of the reporting requirements, the Management and Fiscal Policy Committee should determine the appropriate level of monitoring to be conducted by Council and staff.

Finding 3. A general approach to costing a program may be appropriate to determine the initial feasibility of contracting a program or activity. However, a more in-depth analysis is needed to determine whether financial benefits may be realized. While an agency may have the necessary in-house expertise to perform complex analyses, the availability of these resources appear to be restricted because of workload demands and limited staff.

Recommendation 3. The Council should consider appropriating funds to a Non-Departmental Account to be managed by the Legislative Branch. This account would be used for consultant assistance in identifying and allocating program costs or performing other financial analyses when requested by an agency or assigned by the Council.

Finding 4. Some Councilmembers and agency managers have occasionally expressed concern that objectivity may be compromised by requiring in-house analysis of programs and activities for potential contracting opportunities. While recommendations by program managers may be reviewed by department or senior managers, these reviews are also agency specific. With the exception of critiques performed by Council staff, no outside reviews have occurred.

Recommendation 4. When appropriate, the agencies should seek volunteers to participate in their contracting reviews. Each agency should develop a list of volunteers willing to either directly assist in analyzing programs and activities for contracting out or to independently review the in-house analyses. The various department and office staffs should be requested to contribute by identifying skills and experience relevant to analysis of their programs.

Finding 5. Providing government services through contractual arrangements with the private sector is often viewed as efficient and cost effective because of natural competition among potential private sector bidders. However, the potential of contracting out for programs and services may also be used to introduce a level of competition within government and create an incentive for employees to identify potential cost savings and efficiencies. Thus, contracting strategies should be part of government's long-term management philosophy, rather than a short-term accommodation to manage the size of the workforce or simply to accommodate budget cuts.

Recommendation 5. The Council should continue to encourage agencies to explore opportunities to contract out government activities whenever services can be provided more efficiently or effectively by the private sector. Special emphasis should be placed on contracting reviews for all new activities/programs or expansions to current government programs. Comparative analyses should be performed and submitted to the Council to justify any proposals for new or expanded programs.

VI. DEPARTMENT AND AGENCY COMMENTS ON DRAFT REPORT

On August 10, 1994, OLO circulated a draft of this report to appropriate administrators and staff of the Executive Branch and the County Council, the Maryland-National Capital Park and Planning Commission, Montgomery County Public Schools, Montgomery College, Housing Opportunities Commission, and the Washington Suburban Sanitary Commission.

Technical corrections received orally or in writing were considered for incorporation into the final report. Written comments received from those choosing to comment on the draft report are included in their entirety starting on page 13.



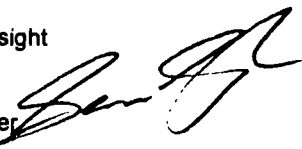
Montgomery County Government

ROCKVILLE, MARYLAND 20850

MEMORANDUM

September 12, 1994

TO: Karen Orlansky, Director
Office of Legislative Oversight

FROM: Gene Lynch
Chief Administrative Officer 

SUBJECT: DRAFT OLO Report #94-5, Review of the Processes to Implement the Council's Policy Directive on Contracting

Thank you for the opportunity to comment on the Draft OLO Report #94-5, Review of the Processes to Implement the Council's Policy Directive on Contracting. The comments from the County Attorney and Office of Management & Budget are attached.

The Executive Branch looks forward to discussing OLO Report #94-5 upon its release by the County Council. Thank you again for the opportunity to comment.

Attachment

OLO94-5.CON




Montgomery County Government

MEMORANDUM

September 7, 1994

TO: Karen Orlansky, Director
Office of Legislative Oversight

FROM: Robert K. Kendal, Director 
Office of Management and Budget

SUBJECT: DRAFT OLO Report No. 94-5, Review of the Processes to Implement the Council's Policy Directive on Contracting

Thank you for the opportunity to respond to this OLO report. In particular, I appreciate Joan's acknowledgement of OMB and staff in Section I.

Regarding Finding 1 under Section V, the Executive's intent in providing listings as described under Section III, REVIEW OF AGENCY COMPLIANCE WITH REQUIREMENTS, was tailored to be responsive to Council Resolution No. 12-596. The listings provided by Executive Branch departments and compiled by OMB are designed to provide Council with the information requested in the resolution. If the Council finds such listings useful, OMB would be willing to share the formats with the other agencies so that agencies could provide the Council with consistent information.

Regarding Recommendation 1, OMB has previously attempted to collect information on the extent to which program funds are dedicated to contracting, and to compile listings of programs operated under contractual arrangements. Because of the extensive amount of time to collect and compile such information, and because the amount of funding may change based on the competitive procurement process, data collection efforts have been inconsistent and comparative analysis difficult. Before the Council proceeds with such an effort, it would be important that the most critical information needs be clearly articulated so that the responses of various agencies are consistent and useful. Scarce public resources should not be spent collecting information for the sake of doing so without a clear intent on why it is being collected and how it would be used.

Finding 3 suggests that the availability of resources limits the ability of agencies to perform complex analyses. Finding 4 suggests that the agency staff may sometimes lack the objectivity to review and analyze programs for the potential to contract operations. Recommendation 4 attempts to address this issue by suggesting that agencies should seek volunteers to directly assist with contracting activities. This may address the issue of time constraints, and allow additional specialized expertise to be brought in, assuming that appropriate resources could be found. While I am concerned about the amount of time that such complex analysis might require of a volunteer or team of volunteers, the intent of the recommendation appears sound since the results of the analysis would be performed under the auspices of the agency responsible for operating the program.

Office of Management and Budget

Director's Office/Interagency Analysis & Review Division/Budgets Division

101 Monroe Street, 14th Floor, Rockville, Maryland 20850, 301/217-2789, 2820, 2800

I am concerned, however, about the suggestion in Recommendation 3 that funds be appropriated in an Non-Departmental Account to be managed by the Legislative Branch. In presenting Council Resolution No. 12-596 to the full Council, the Management and Fiscal Policy Committee made clear that they understood that dedicating resources for contracting out analysis might be difficult. The reduction in the Program Evaluation and Assistance NDA funding since the 1980s is a clear illustration of this problem.

The responsibility for determining whether a program is best operated using County staff, a contractor, or some combination should remain with the agency responsible for operating the program. Since it was not OLO's intention to study whether in-house contracting out analyses are objective or not, it would be premature to draw a conclusion because in-house studies by their nature have the appearance of being less objective. I am sure the agencies, as with the Executive Branch, do the best they can with available resources to explore efficiency and effectiveness alternatives, particularly given resource constraints, time constraints, and funding priorities.

If an agency or department believes that providing funds for contractual assistance to perform contracting out studies is important, then resource allocation decisions to do so should be made and compete against other priorities within the budget process. If the Council is not happy with the level of resource allocation for this purpose within agency budgets, then they should consider the same resource allocation choices and appropriate funds for this purpose within the agency budgets. If the Council desires to have funds available for Council initiated studies, that is of course their prerogative. Mechanisms already exist for this purpose, such as by funding contractual services through the OLO or Council operating budgets, assigning Council or OLO staff to perform contracting out analyses in cooperation with agency staff, or Council Committee oversight of Council funding decisions for new and expanded programs.

M E M O R A N D U M

September 7, 1994

TO: Karen Orlansky
Director, Office of Legislative Oversight

VIA: Joyce R. Stern *Joyce R. Stern*
County Attorney

FROM: Frank E. Couper *FE Couper*
Assistant County Attorney

RE: OLO Report 94-5 on Contracting Out Government Services

The resolution of the County Council on contracting out County government functions requires that administrative officers of the County and agencies report annually on their efforts to "contract out" government functions. The OLO Report 94-5 identifies the methodology used by agencies in this process, and some of the preliminary results of the "contracting out" of government functions. The report's analysis implies certain conclusions, but in some cases does not explicitly state those conclusions. For instance, the following issues are mentioned or discussed in the report.

No clear criteria established to determine which County programs are the object of the Council resolution.

The Council resolution mandates an annual report of the contracting out of "government programs". Yet the management philosophy (p. 7, Part IV.A) seems to lump all County contracting for all services and programs with government functions traditionally performed by employees. There is a difference between a County contract to pave a road (which has traditionally been done by private contractors under County contracts), and contracting out all functions traditionally performed by County employees who determine what roads to pave, write the specifications for the road paving, and inspect the asphalt and the paving. In the Department of Corrections, contracting for dental, physician and psychological testing services that have never been performed by County employees, is a different type of "contracting out", than hiring a security firm to perform the core departmental functions of guarding prisoners that have traditionally been performed by County employees. The list on p. 8 of the report illustrates a mix of the two types of contracts. If there is no clear criteria for determining what types of government programs (or government functions) are subject to the Council resolution, then there is no clear criteria for determining what government "programs", "functions" or "services" should be studied.

September 7, 1994
Page 2

The intent of the Council resolution was apparently not to consider for contracting out all government functions, otherwise the Council's guidance that "not all government functions are appropriate for contracting out" would be unnecessary. It would be useful for departments to have specific criteria for determining what central core functions of government need not be studied for contracting out.

In a related matter, the OLO report cites criteria that have been used by other departments and agencies to determine what functions are to be contracted out (page 3 at III. ¶ 3). Other departments and agencies might benefit from a disclosure of the criteria successfully used by other agencies.

Methodology for comparing costs of contracting versus in-house costs

The report notes that there are competing methodologies used in studying the costs of contracting out versus the costs of performing the service in-house (page 9, at IV.B). The report does not make any recommendation concerning which methodology should be used in Montgomery County studies, or what methods have successfully been used in departmental and agency studies of contracting out in the recent past. If most studies are being done by County employees, some standardization and guidance is required. Such standardization and guidance will also tend to minimize any bias that may exist when a County employee authors a "contracting out" recommendation.

FEC:fec:0969:94.03778

September 1, 1994

Montgomery
College

Maryland's Largest
Community College

Ms. Joan M. Pedersen, Program Evaluator
Office of Legislative Oversight
Montgomery County Government
100 Maryland Avenue
Rockville, Maryland 20850

Dear Ms. Pedersen:

Montgomery College has reviewed the Report No. 94-5, Review of the Processes to Implement the Council's Policy Directive on Contracting. We find the information for Montgomery College to be accurate. While not required, some County assisted entities and agencies provided you with a list of areas currently under contract. We could provide such a list for Montgomery College if it would be useful.

While we have no significant concerns about the report, we do question the practicality of Recommendations 3 and 4. If funds are set up in a non-departmental account (Recommendation 3), the process for accessing these funds should be kept very simple if the fund is to encourage rather than discourage contracting out. With regard to the use of volunteers (Recommendation 4), we think it is unlikely that many public employees, who are already overtaxed by funding and staffing reductions, would have much time for volunteer service. Locating of private volunteers could require a commitment of time that many managers may not have.

We appreciate the effort that you have made with this report and the opportunity to comment on it.

Sincerely,

Charlene Nunley
acting for

Robert E. Parilla
President

REP:sww

Central Administration
3000 Rockville Pike
Rockville, MD 20850
(301) 279-6000

Germantown Campus
50000 Observation Drive
Germantown, MD 20874
(301) 393-7700

Rockville Campus
50 Maryland Street
Rockville, MD 20850
(301) 279-5000

Takoma Park Campus
Takoma Avenue at Benton Street
Takoma Park, MD 20912
(301) 650-1300

Bethesda Center
7815 Woodmont Avenue
Bethesda, MD 20814
(301) 650-6777

Memorandum

September 7, 1994

TO: Joan M. Pederson, Program Evaluator
Office of Legislative Oversight

FROM: William H. Hussmann, Chairman
Montgomery County Planning Board (W)

SUBJECT: Response to Request for Information dated August 10,
1994 - OLO Report No. 94-5, Review of the Processes to
Implement Council's Policy Directive on Contracting

This memorandum is in response to your request for written comments to be incorporated into the final report to the Council. The Planning Board has not had an opportunity to review and comment on OLO Report 94-5. These comments supplement our response of March 18, 1994.

The Department of Human Resources and Management (DHRM) has taken additional steps to explore possibilities for contracting for services. Beginning in FY 1994 and continuing into FY 1995, DHRM has undertaken a major study to improve the efficiency of the document production program. Significant efforts are ongoing to explore all options, including the possibility of contracting out this program to a private vendor. DHRM staff members, in partnership with Xerox, have applied Xerox's process of evaluation methodology to consider several options for restructuring or re-engineering the Central Administrative Services (CAS) Print Shop. The study also encompasses optical disk enhancement to the records management program. Participation of other vendors as well as Xerox has added depth and value to the evaluation. Staff plans to complete the study by the time the FY 1996 budget is submitted. DHRM staff is also working with other Montgomery County agencies on a cooperative bid for Employee Assistance and Wellness programs. It should be noted that the Minority/Female/Disabled Firm

Joan M. Pederson
September 7, 1994
Page 2

Certification program previously listed under the Finance Department was reassigned to the Department of Human Resources and Management.

The Legal Department notes that the Commission contracts out for legal services in instances where specialized expertise is required. Those areas include: insurance defense, construction contract litigation, real estate settlements, certain labor relations matters and certain EEO/discrimination matters. The Legal Department is currently considering whether or not to handle the subrogation lawsuits in house. The CAS Study Group did not identify or recommend any additional legal functions for contracting out, however, the Legal Department continues to assess possible opportunities for contracting.

If you have any questions regarding the response, the Commission's contact person is John Heater, Finance Manager. He can be reached at 454-1601.

cc: Roy I. Dabney, Vice Chairman, M-NCPPC
LeRoy J. Hedgepeth, Executive Director
A. Edward Navarre, Secretary-Treasurer
Ronald D. Schiff, General Counsel
Robert W. Marriott, Planning Director
Donald K. Cochran, Parks Director



850 Hungerford Drive • Rockville, Maryland • 20850-1747

Telephone (301) 301-279-3626

September 6, 1994

Ms. Joan Pedersen
Program Evaluator
Office of Legislative Oversight
Montgomery County Council
100 Maryland Avenue
Rockville, Maryland 20850

Dear Ms. Pedersen:

I am responding to the draft OLO Report No. 94-5, Review of the Processes to Implement the Council's Policy Directive on Contracting. I have incorporated the comments of Dr. Paul L. Vance, superintendent of schools, and Dr. H. Philip Rohr, deputy superintendent, in my response. Thank you for sharing the draft with us and asking for our comments prior to submitting your report to the Council.

I would like to provide a brief update of the materials I sent to you four months ago. I indicated in my letter that we are considering a pilot contract for school bus services in one of the school transportation depots. Since that time, the Board of Education has decided not to award a contract for these transportation services. I have enclosed a copy of the superintendent's June 14, 1994 memorandum that was submitted to the Board of Education for its consideration of a pilot contract.

In addition, following its action on transportation contracting, the Board of Education approved a new business item to schedule a discussion of contracting out of plant operations. Since this Board of Education discussion has not been scheduled, we have not proceeded with the plan for a pilot program to contract building services in one high school cluster (referred to on page 5 of your draft report).

Overall, I concur with the intent of the recommendations in your report. I believe it would be easier for the agencies to comply with the Council resolution if there was a single reporting format. I also think it would be easier for the Council members to review the reports.


Ms. Joan Pedersen

-2-

September 6, 1994

You are correct in identifying the lack of available resources as a problem for the agencies to complete detailed financial analyses. Although I agree that appropriating funds for consultant support would be helpful, I don't know that this should be a high priority during these difficult fiscal times. I also believe it will be difficult to find volunteers who have the time and expertise to complete these analyses as independent reviewers. Finally, I fully concur with your suggestion that the focus of these reviews should be on new activities or programs and/or expansions of current programs. Agencies should continue to look for opportunities to contract for services, but we should not be required to complete a detailed review of all of our services each year. This task would be overwhelming.

Sincerely,



Larry A. Bowers

LAB:bal

Enclosure

Copy to:

Dr. Vance

Dr. Rohr

Office of the Superintendent of Schools
MONTGOMERY COUNTY PUBLIC SCHOOLS
Rockville, Maryland

June 14, 1994

MEMORANDUM

To: Members of the Board of Education

From: Paul L. Vance, Superintendent of Schools *PLV*

Subject: Contracting Out Student Transportation Services - Pilot Program (Request for Proposal #94-11)

INTRODUCTION

The issue of contracting out Montgomery County Public Schools (MCPS) services has been addressed in various ways during the past several years. Currently, MCPS contracts for a variety of services throughout both the instructional and supportive services areas. The Corporate Partnership on Managerial Excellence (CPME) report recommended the expansion of contracted services to include student transportation services.

BACKGROUND/EVALUATION PROCESS

A Request for Proposal (RFP #93-10) was issued in June 1993 for a pilot transportation program in the Poolesville area. This was rejected by the Board of Education on July 26, 1993, as not being cost effective for such a small number of buses. At that time, staff indicated the pilot program would be expanded in order to increase the cost savings through economies of scale. The study of such a pilot program for contracting transportation services also was in accordance with CPME recommendations. As a result, a second Request for Proposal (RFP #94-11) was mailed to prospective contractors earlier this year and it expanded the service area to include all schools in the Damascus, Poolesville, Quince Orchard and Seneca Valley clusters. Required services included transportation for all programs in and out of these four clusters, as well as related services including bus maintenance, scheduling, and routing.

An evaluation team of staff members from the Procurement Unit, the Division of Transportation, the Department of Management, Budget, and Planning, and the Department of Educational Accountability analyzed the four bids received based on service issues, organizational experience, and cost requirements. Both technical and business proposals were received from prospective contractors. Technical and qualitative criteria were given the highest priority in the evaluation process while cost considerations received a lower priority. Finally, visits and telephone interviews with a number of school districts resulted in favorable reports on vendor-related service, safety, and reliability with respect to Laidlaw Transit, Inc.

FISCAL IMPACT

As part of the RFP requirements, detailed business proposals were received from bidders. The evaluation team requested specific cost elements for service provisions to ensure that all associated costs were identified and priced so that a true comparison with MCPS costs could be identified and verified. This comparison included both MCPS direct and indirect costs, as compared to the offered rates quoted by contractors. Based on actual expenditures incurred in the pilot program service area, MCPS costs to provide student transportation was \$6,571,742 (Attachment A). The following list provides the total cost of student transportation services in the proposed pilot program area, as included in the offerors' bid.

<u>Contractor Name</u>	<u>Contractor Costs</u>	<u>First Year (Under)/Over MCPS Costs</u>
Laidlaw Transit, Inc.	\$ 6,489,615	\$ (82,127)
Mayflower Contract Services, Inc.	7,232,456	660,714
National School Bus Service, Inc.	7,309,291	737,549
Vancom Transportation, Inc.	8,205,500	1,633,758

Discussions with the low bidder, Laidlaw Transit, Inc., indicated that it can comply with all of the RFP requirements, including beginning on the first day of the 1994-95 school year. Timely start-up is dependent on notification to the contractor no later than June 15, 1994. While the first year cost savings are estimated to be \$82,127, savings in the second and third year of the pilot program are estimated to be \$257,693 per year (Attachment A).

It is projected that the total cost savings for the three-year pilot program would be \$597,513 (Attachment B). If the pilot is successful, it could be expanded until all MCPS students ultimately are transported by contract carriers. As such, there exists a potential annual savings of several million dollars if contracting out transportation services were implemented systemwide. It should be noted that the FY 1995 Operating Budget assumes implementation of a pilot program and includes an estimated cost savings of \$200,000.

ISSUES

The safety of MCPS students continues to be our priority. While many other school systems throughout the country transport students with a private contractor, our parents may expect and demand that their children's well-being be provided in a manner beyond what a private company may provide. It should be noted that there are no data indicating contracting out is any less safe than in-house operations. As previously stated, the low bidder has committed to meeting all of the requirements for bus operators, bus attendants, mechanical inspections, and safety training equal to the level provided by MCPS. The RFP stipulates that the contractor must hire staff and otherwise implement transportation services in the least disruptive manner to current operations. Because there is such a high expectation level for services, a transition program would need to be launched to assure parents, students, and school personnel that all requirements have been met by the contractor. As specified in the RFP, operational standards must meet or exceed MCPS' current standards as it relates to fleet maintenance, safety training, drug testing, and hiring practices.

Precautionary controls are included in the RFP to protect the integrity of the current in-house transportation service program. Such controls include the lease of buses currently in the fleet to the vendor to support the pilot program, thus maintaining a sufficient fleet to provide service to all clusters. Additionally, MCPS would provide facility rental space (Clarksburg depot) to the vendor. These requirements are included in order to maintain MCPS' preparedness, during the pilot program, to provide services in lieu of contracting out services, at any time.

Montgomery County Council of Supporting Services Employees, Inc. (MCCSSE) actively voiced its opposition to contracting out. The union questions the quality and stability of contractor services. Staff has met with MCCSSE and discussed the evaluation criteria and heard the concerns of the organization. A primary concern is loss of jobs. MCCSSE was advised that the costs to reduce positions and reassign incumbent employees to alternative positions are included in the cost savings analysis (Attachment B).

Another consideration addressed in the evaluation of the pilot program was how to control escalating contract costs in the second and third year of the pilot program. As a precaution to increased inflationary costs and the out-pricing of contracted services, the RFP requires that cost increases for future years be limited to the percentage rate increase, or decrease, as reported by the Consumer Price Index for Urban Earners and Clerical Workers for the Washington, D.C.-Maryland-Virginia local area. It should be noted that each one percent deviation experienced between MCPS' annual inflationary increases for budgeted services and the CPI would result in an estimated increase/decrease in the cost of contracted transportation services in the amount of approximately \$65,000. Inasmuch as this is a three year pilot program, projected second and third year savings would be affected by such a deviation.

As it relates to operational decisions, changes now absorbed or accommodated within existing routes and in conjunction with other program changes, including bell time changes, would be addressed in a collaborative effort between MCPS and the contractor. As stipulated in the RFP, the ultimate authority for these operational choices rests with MCPS. The contractor would be responsible for resolving problems (no shows, lateness, driver/attendant discipline, etc.) utilizing an approved appeal process to track such complaints. Changes in activity bus and field trip scheduling would have to be considered. Billing to schools for services would be handled, either centrally or individually, by the contractor. Based on the low bidder's activity bus rates, there exists a potential cost saving to schools utilizing this service from the rates currently charged by MCPS.

Finally, other considerations regarding the implementation of privatized student transportation services have been reviewed. Administrative costs to monitor such a large contract have been included in the cost savings analysis (Attachment B). It is anticipated that many execution and compliance issues would be avoided through the implementation of contract administration efforts. Division of Transportation staff members would be utilized to oversee the start up and first-year execution of the pilot program. Throughout the implementation of the pilot program, an analysis would be conducted to measure the effectiveness and efficiency of contracting transportation services. Based on annual findings, periodic improvements in the program would be made to further explore other possible efficiencies. At the completion of the pilot program, a determination would be made as to the possible future expansion of contracted transportation services or the elimination of such contracting based on service quality and efficiencies.

RECOMMENDATION

During recent years, issues impacting transportation have been highly visible and often controversial. These have included walking distances, bell time schedules, boundary changes, inclement weather and, now, contracting transportation services. I believe that the findings of the RFP evaluation confirm that MCPS provides efficient and fiscally responsible student transportation services. Based on the bids received, Laidlaw Transit, Inc., the lowest bidder, can save us money. Three of the four proposed rates are higher than what it costs MCPS. If saving money was the only decision-making criteria, a determination to pilot transportation services for these four clusters could easily be made.

However, in-house delivery of transportation services has more than adequately provided for the safety and general well-being of our students, as well as offering intangible benefits such as the rapport established among parents, students, staff members and bus operators and attendants. Finally, the existing internal organizational controls of hiring, employee retention, disciplinary actions and flexible systemwide scheduling add a comfort level that

cannot be equated with cost comparisons and potential savings. Therefore, I recommend that the contracting out of transportation services not be authorized at the present time.

RESOLUTION

WHEREAS, A Request for Proposal #94-11 for contracting out school bus transportation services was mailed on January 5, 1994, and four sealed bids were received on February 16, 1994; and

WHEREAS, Staff members have completed a detailed cost and benefit analysis; and

WHEREAS, Current in-house service delivery is extremely competitive with market rates as evidenced by separate pilot program evaluations in FY 1993 and FY 1994; now therefore be it

Resolved, That the Montgomery County Board of Education elect not to award a contract for the provision of transportation services by rejecting RFP #94-11 and that such services continue to be provided in-house.

Attachments

PLV:HPR:wmb

NET SAVING COST COMPARISON - CONTRACTING OUT

Expense Category	MCPS	VENDOR	FIRST YEAR INCREASE/ (DECREASE)	SECOND YEAR* INCREASE/ (DECREASE)	THIRD YEAR* INCREASE/ (DECREASE)
Operators and Attendants (Salary/Benefits)	\$4,540,098	\$3,734,066	(\$806,012)		
Fuel Cost	337,822	354,614	16,792		
Fleet Cost (Bus Cost/Depreciation)	460,416	859,415	398,999		
Fleet Cost (Vehicle Insurance)	127,775	329,054	201,279		
Training and Drug Testing Cost	85,259	90,394	5,135		
Repair and Maint. Cost (Staff Salary/Benefits/Operating Cost)	1,010,511	883,248	(127,263)		
Facilities Cost		53,192	53,192		
Other Operating Cost (Other Staff Support/Overhead)	302,465	152,024	(150,441)		
General and Administrative Cost (Portion of Systemwide Support)	248,113	33,588	(214,525)		
Subtotal Cost Savings:	\$7,112,459	\$6,489,615	(\$622,844)	(\$622,844)	(\$622,844)

FACILITIES LEASE REVENUE

Clarksburg/Poolesville Lease					
- Space/Building Rental	\$55,376		(\$55,376)		
- Equipment/Tool/Shop Rental	22,756		(22,756)		
Rental Cost Subtotal:	\$78,132		(\$78,132)	(78,132)	(78,132)
Total Annual Cost Savings:			(\$700,976)	(\$700,976)	(\$700,976)

CONTINUED COSTS

MCPS General and Administrative Costs	(\$248,113)		\$248,113	\$248,113	\$248,113
Depot Supervisory Staff	(113,566)		113,566		
Retaining Displaced Employees	(62,000)		62,000		
Contract Administration Cost (% of DOT Admin. Overhead Costs)	(195,170)		195,170	195,170	195,170
Subtotal Continued Costs:	(\$618,849)		\$618,849	\$443,283	\$443,283
Total Annual Cost Savings:	6,571,742	6,489,615	(\$82,127)	(\$257,693)	(\$257,693)

* Expense costs for the second and third year are assumed to be constant. Continued costs for staff located at the depot will be eliminated in the second and third year.

Note: Based on the rate offered by the vendor for riders/schools utilizing activity and other field trip transportation services, cost savings of \$144,000 are possible.

COST SAVINGS ANALYSIS PILOT TRANSPORTATION SERVICES CONTRACT

Description	Cost Savings
1. Total estimated direct and indirect expense savings associated with contracting out transportation services in the Clarksburg and Poolesville clusters.	\$700,976*
2. Allocated MCPS general and administrative overhead costs which will not be eliminated unless contracting out is greatly expanded in scope and overhead staff is actually reduced/eliminated.	\$(248,113)
3. Allocated overhead for contract administration efforts that will be recurring costs. Expense includes a portion of the Director's salary and other administrative/management salary expenses plus fringe benefits costs.	\$(195,170)
4. Allocated overhead for on-site supervisory staff at the Poolesville and Clarksburg clusters (1 manager and clerical support) which will be phased out in subsequent years.	\$(113,566)
5. Cost associated with retaining/reassigning approximately 35 staff members	\$(62,000)
Total First Year Cost Savings Adjusted for Recurring Costs:	\$82,127
6. Second year savings assumes the elimination of on-site supervisory staff (1 manager and clerical support) and costs associated with retaining/reassigning approximately 35 staff members.	
Total Second Year Cost Savings Adjusted for Recurring Costs:	\$257,693
7. Third year savings assumes the elimination of on-site supervisory staff (1 manager and clerical support) and costs associated with retaining/reassigning approximately 35 staff members.	
Total Third Year Cost Savings Adjusted for Recurring Costs:	\$257,693
Total Cost Savings Over the Three Year Period of the Contract:	\$597,513**

* The total cost savings of \$700,976 includes \$78,132 for anticipated rental income for the Clarksburg and Poolesville depot facilities and associated shop equipment.

** Cost savings will be increased or decreased by approximately \$65,000 for every 1.0 percent deviation in the annual in-house expense growth rate over the prevailing annual CPI rate ceiling, as incorporated in the contract.

NOTE: Based on the hourly rate provided by the contractor for activity, athletic and other field trip services, riders/schools may realize a cost savings of approximately \$144,000 annually.

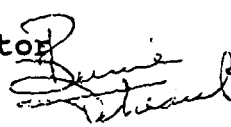


10400 Detrick Avenue
Kensington, Maryland 20895-2484
(301) 929-6700

Fax numbers:
(301) 929-8523 - Development
(301) 929-8499 - Client Services

M E M O R A N D U M

TO: Joan M. Pedersen, Program Evaluator
Office of Legislative Oversight

FROM: Bernard L. Tetreault, Executive Director
Housing Opportunities Commission 

RE: Response to Draft OLO Report 94-5
Review of the Processes to Implement the County's
Policy Directive on Contracting

DATE: September 27, 1994

The Housing Opportunities Commission has reviewed the Draft OLO Report 94-5 "Review of the Processes to Implement the County's Policy Directive on Contracting". The agency generally concurs with all the findings and recommendations in this report but would like to comment on the following:

Recommendation 3

H.O.C. concurs and would appreciate financial assistance for specific analyses requested by the County.

Recommendation 4

H.O.C. generally agrees with the concept of Recommendation 4 so long as this does not require implementing a new process that is not cost effective. The agency currently contracts out a substantial amount of work and will continue its efforts in determining which programs and activities are best done by contract or by in-house staff.



Resolution No. 12-596
Introduced: March 24, 1992
Adopted: March 31, 1992

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: Management and Fiscal Policy Committee

Subject: Contracting with Private Providers to Deliver Government Services

Background

1. The Commission to Review the Efficiency and Effectiveness of Government reported to the Council in December 1991 regarding their recommendations for the use of privatization in the delivery of government services and programs.
2. In preparation for the FY 93 budget the Council identified the question of when to contract with private providers to deliver government services ("contracting out") as an issue which it believed deserved further study.
3. The Management and Fiscal Policy (MFP) Committee considered the Commission's recommendations on March 16, 1992 and March 23, 1992.
4. The Committee concurred, in general, with the recommendations of the Commission, particularly noting the Commission's emphasis on the importance of competition as a means to achieve increased effectiveness and efficiency and the Commission's conclusion that not all programs are appropriate for contracting out.
5. The Committee made certain minor amendments to the Commission's recommendations regarding the process for considering contracting out and the criteria for determining when to contract out.
6. The Council reviewed the Committee's recommendations regarding contracting out on March 31, 1992.


Action

The County Council for Montgomery County, Maryland, approves the following resolution:

1. Each year the Chief Administrative Officer (CAO) and his counterparts at other agencies should identify a list of all programs which will be analyzed for contracting out during the coming year. These lists should be submitted to the Council annually in conjunction with the submission of the respective budgets, with a time schedule for the analysis. The lists should include:

- a. A description of all new programs and services, and any program or service which is recommended for expansion, together with a recommendation as to whether it should be considered for contracting out. This recommendation should be based on a preliminary analysis of the criteria recommended by the Committee. If further study is required, the submission should identify the appropriate agency or office to conduct that analysis.
 - b. A list of existing programs which should be analyzed for contracting out in the next fiscal year. These recommendations should also be based on a preliminary analysis of the criteria and should include a recommended schedule and assignments for follow-up work.
2. The Office of Legislative Oversight (OLO) should monitor the efforts of the Executive Branch and all other agencies with regard to these submissions.
 3. The following criteria (as described in the MFP Committee's March 26, 1992 memorandum to the Council on this subject) should be used in evaluating whether a program is appropriate for contracting out:
 - a. Size and Type of Program and Ability to Quantify
 - b. Cost
 - c. Quality and Quantity of Service
 - d. Quality of Private Providers
 - e. Legal Constraints
 - f. Personnel Issues
 - g. Administration and Control

This is a correct copy of Council action.


Kathleen A. Freedman, CMC
Secretary of the Council

MEMORANDUM

March 26, 1992

TO: County Council

VIA: Marilyn J. Praisner, Chair, Management and Fiscal Policy Committee

FROM: Marlene L. Michaelson, Senior Legislative Analyst

SUBJECT: Contracting with Private Providers to Deliver Government Services

The Management and Fiscal Policy (MFP) Committee considered the recommendations of the Commission on Efficiency and Effectiveness relating to contracting with private providers to deliver government services on March 16, 1992 and March 23, 1992. (The Commission's Summary Report on Privatization appears on circles 3 - 10). The Committee's recommendations are summarized below. A resolution endorsing these recommendations is attached at circles 1 - 2.

Three caveats should be noted. The MFP Committee previously determined that it wished to focus on contracting with private entities for government services (commonly called "contracting out"), as opposed to any other meanings associated with the term privatization. The Commission used the term privatization to apply to a broad range of options including franchises, grants, vouchers, volunteer, self-help, regulatory and taxing authority, and user fees, in addition to contracting out. Both the Commission and the Committee felt that the option of abrogating all public sector responsibility for a service was a separate issue which should be considered apart from an examination of the most appropriate delivery option.

Second, the MFP Committee echoed the sentiments of the Commission in stating that not all government services are appropriate for contracting out. The Committee does not believe that one should assume that either private or public provision of services is better as a general rule. This issue can only be considered on a case-by-case basis and may vary over time.

Finally, the Committee supported the Commission's finding that the key to successful contracting out is to insure competition among private providers or even between public employees and private providers. Although competition is inherent in most private enterprises driving their efforts to minimize costs and maximize quality, it is typically missing from public sector environments. The Commission concluded that, to a large extent, it is the addition of competition, not necessarily the private provision of a service, which can result in greater efficiency and/or effectiveness. A summary of the Commission's findings regarding competition appears on circles 5 to 6.

The Committee focused on the first three recommendations of the Commission regarding the establishment of a process for deciding when and how to consider contracting out and criteria to be used in deciding whether to contract out. Their recommendations are presented below.

I. CRITERIA TO USE IN DECIDING WHETHER TO CONTRACT OUT

The Commission recommended seven criteria to be considered in deciding whether to "privatize." They are summarized below, together with the modifications recommended by the Committee. A more detailed description of the criteria as described in Volume II of the Commission's report appears on circles 11 to 13.

The Committee felt that any examination of whether or not to contract out should be based on a careful analysis of the existing means of delivering the service and whether there are any alternative ways for the public sector to deliver the service with greater efficiency or effectiveness. This could provide additional options in any analysis (i.e., existing public service delivery, alternative means of public service delivery, private service delivery, or any combination thereof). Each of the following criteria would apply to all of the above options.

1. Size and Type of Program and Ability to Quantify. The Commission felt that only those programs which involve a significant commitment of staff or resources are worth considering for contracting out. The Committee felt that although the size of the program and potential savings should be a consideration, this criteria should not be used to exclude small programs which may be very appropriate for contracting out (especially in the case of programs which require limited, seasonal staff support or are of short duration). The Committee concurred with the Commission's criteria that it must be possible to compare the costs and benefits of public versus private provision of the service.
2. Cost. This is the most complicated aspect of the analysis of contracting out. The difficulty arises in trying to calculate the true cost of having the public sector provide a service or monitor a private contract. Cost analysis is further complicated by the fact that the lowest bid is not necessarily

the best option since the least expensive contractor may not necessarily be able to deliver the service at the desired quality. The Committee added that they believed that the difficulty in conducting the cost analysis should not be used as an excuse for not considering contracting out.

3. Quality and Quantity of Service. The government must determine whether private providers can offer the same quantity and quality of service as the public sector, or whether it wishes to reduce the quality and/or the quantity of the service provided.
4. Quality of Private Providers. Are there a sufficient number of private providers to assure competition? Are the private providers fiscally sound and stable enough to assure continuity of service? What is the experience of private firms in providing the service being considered? What is the experience of other governments?
5. Legal Constraints. Federal, state and local law must be reviewed to determine whether there are prohibitions which prevent contracting out of certain services. The government must also consider whether there are any prohibitions on multi-year contracts or union agreements that prohibit contracting out.
6. Personnel Issues. Personnel related issues are often cited as one of the primary obstacles to contracting out. Government should consider the following issues: the civil services rules that may prevent displacement of public sector employees, the legal and moral obligations to existing employees, how affirmative action goals will be impacted, whether it is possible to have the private provider hire displaced public employees. The Committee noted that they believe that every effort should be made to minimize any adverse effect on employees.
7. Administration and Control. How will the government maintain control over accountability, performance and results if a private provider delivers the service? How will the government receive feedback from the constituents being served? How will the service be measured and monitored? How difficult is the transition from public to private sector provision or the reverse? When equipment is involved, what are the technical implications? What is the potential for waste, fraud and abuse of conflicts of interest and can they be prevented?

II. ESTABLISHING A PROCESS TO CONSIDER CONTRACTING OUT

The Commission came to two primary conclusions regarding how and when governments consider privatization. First, most employees are unlikely to consider contracting out absent a requirement to do so since it may threaten their jobs or lead to criticism of their performance. Second, given the amount of analysis necessary to evaluate privatization options using the criteria listed above, such an analysis cannot be done rapidly and should not be done for every government program. The Commission concluded that it could not, in a short time frame, evaluate specific options for privatization but instead recommended a process to insure that County agencies are required to consider and report on privatization. They recommended that "privatization be considered at the initiation of any new program or expansion of an existing program, and that the Chief Administrative Officer and his counterparts at Montgomery County Public Schools, the Maryland-National Capital Park and Planning Commission, and Montgomery College report to the Council on an annual basis regarding programs which will be considered for privatization."

Rather than relying on each individual manager to determine when to consider privatization, the Commission determined that the County should require that it be considered at specific points. The Committee reviewed the Commission's recommended process (see circle 3) and have recommended modifying their approach slightly as summarized below.

Each year the Chief Administrative Officer (CAO) and his counterparts at other agencies should identify a list of all programs which will be analyzed for contracting during the coming year. These lists should be submitted to the Council annually in conjunction with the submission of the respective budgets, with a time schedule for the analysis. The lists should include:

1. A description of all new programs and services, and any program or service which is recommended for expansion, together with a recommendation as to whether it should be considered for contracting out. This recommendation should be based on a preliminary analysis of the criteria recommended by the Committee. If further study is required, the submission should identify the appropriate agency or office to conduct that analysis.
2. A list of existing programs which should be analyzed for contracting out in the next fiscal year. These recommendations should also be based on a preliminary analysis of the criteria and should include a recommended schedule and assignments for follow-up work.

The Office of Legislative Oversight (OLO) should monitor the efforts of the Executive Branch and all other agencies with regard to these submissions.

The Commission expressed concern about the amount of resources which may be required to conduct analyses to determine whether to contract out. They noted that the County has a Nondepartmental Account for "Program Evaluation and Assistance" (formerly titled Public-Private Partnerships) for analysis and evaluation of various County Government functions and programs. Due to the fiscal constraints, the County reduced the funds available in this account from \$50,000 in FY 91 to \$10,000 in FY 92 (and it is recommended for funding at \$10,000 in the FY 93 budget). The Commission expressed concern that it would be difficult to undertake the analysis recommended in their report at this level of funding. The Committee felt that agencies should attempt the analysis using existing resources and that any proposal to increase funding for this effort should not be considered in the current fiscal climate.

MLM:gp
61P37-41
Attachment

E. PRIVATIZATION

INTRODUCTION

Governments throughout the United States are increasingly turning to privatization as a means of increasing the effectiveness and efficiency of government programs. The Privatization Council estimates that in 1987 privatization accounted for more than \$100 billion of government services a year. Virtually every function of local government has been delegated to the private sector at some time, somewhere.

The Commission investigated ways (1) to insure that Montgomery County takes full advantage of opportunities offered by privatization, (2) methods to evaluate whether to privatize, (3) steps in the process of selecting and contracting with a private firm, (4) opportunities for privatization in the area of support services.

The Commission recommends that the County continue to explore options for privatization, but cautions that privatization is not appropriate in all circumstances. While some programs have saved millions of dollars for local jurisdictions, there have also been notable and costly failures.

METHODOLOGY

The study of competition/privatization was led a member of the Procurement, Cost Control, and Competition subcommittee. Members of the Subcommittee conducted a survey of County Government Departments, the Board of Education, Montgomery College, and the Maryland-National Capital Park and Planning Commission to gather information on any experiences these agencies might have had with privatization over the past ten years.

Former Councilmembers Scott Foster and William G. Colman, both authorities on public/private partnerships, made presentations to the study group. Staff reviewed the literature and contacted associations such as the National League of Citizens, International City Management Association and the Urban Institute as well as representatives of neighboring jurisdictions.

COMMISSION FINDINGS AND RECOMMENDATIONS

Nationally, the most contracting out for services occurs in public works, health and human services, and support services. Contracts for solid waste collection and disposal, street repair, day care facility operation, drug and alcohol treatment, operation of homeless shelters, vehicle towing and maintenance, and legal services are widespread. Contracting is used infrequently in public safety or where the potential for corruption is or is perceived to be great, primarily in regulatory or enforcement functions.

Montgomery County has had varying levels of experience with privatization. Many departments regularly contract out for a variety of services. The MCPS and Montgomery College food services are enterprise funds and the Park and Planning Commission has concession agreements for five recreational facilities and operates a number of others through its enterprise fund. Each of these entities identified advantages and disadvantages. They all indicated that consideration of alternatives for cost effective service provision as an ongoing part of their analysis, however, it is difficult to ascertain the level or quality of that analysis.

ADVANTAGES AND DISADVANTAGES OF PRIVATIZATION

In the broadest sense, governments contract out services for two reasons: to reduce costs and to increase the quality of the services and products they provide. Contracting out has been found to be generally less expensive than the public sector. Government can obtain private contractors who:

- have lower personnel costs
- can achieve great economies of scale
- have greater flexibility in employment practices
- have greater managerial or technical expertise
- have specialized skills or expertise
- can meet demand beyond government's current capacity
- can accomplish the task more quickly
- have greater access to specialized or expensive equipment or technology

Contracting out also affords greater freedom to provide clients with more choice of providers, and to discontinue contractors that prove to be less effective.

The major arguments against privatization include:

- It may lead to higher overall costs because of the need to include private profits in the price and the added cost of monitoring private contracts.
- The overall quality of service may suffer because the profit motive may lead companies to lower costs by skimping on quality or hiring less qualified or experienced staff.
- There is the potential for corruption, especially if procurement and monitoring are not done carefully.
- There may be a decline in accountability.
- There is concern for the negative impact on public employees, both those displaced and those who remain. It may also be difficult to fire government employees who are no longer needed.

- *There may be increased chances of service interruption.*
- *Without an effective and efficient procurement system, contracting out may, in fact, increase the amount of "red tape" involved in the delivery of a public services.*

DIFFERENT FORMS OF PRIVATIZATION

There are numerous options available including the most extreme form of privatization, to turn a government provided service over to the private sector with no further government involvement. Other variations are:

- *Contracting out/purchase of service*
- *Franchises*
- *Grants/subsidies*
- *Vouchers*
- *Volunteers*
- *Self-help by individuals or groups to undertake activities for themselves ordinarily undertaken by government*
- *Use of regulatory or taxing authority to encourage private sector organizations to provide a service or reduce the need for the service*
- *User fees that place the fiscal burden on the users rather than the taxpayer*

IMPORTANCE OF COMPETITION

The greatest benefits attributable to privatization appear to stem directly from the competition that is inherent in most private enterprises. Public employees rarely face any form of competition or the potential to "lose the business" and therefore do not have the same incentives to minimize cost and maximize quality. The Commission notes that to a large extent, it is the addition of competition, not necessarily the private provision of a service which can result in greater efficiency and/or effectiveness.

There are several points which flow from this basic principle:

- *Privatization works best in services where there are a sufficient number of providers and a great deal of competition.*
- *It may be possible to create competition within the government which will result in efficiencies without necessarily requiring privatization. Different government departments may compete against one another to reduce costs. In Phoenix, Arizona, government agencies bid against private companies for services such as trash collection.*
- *Competition must be ongoing to insure the greatest efficiencies. On the other hand, changing contractors too often can result in inefficiencies because of the procurement process and start-up time.*

- Another means of ensuring continued competition is to maintain the government's ability to provide the service or have public employees continue to provide a portion of the service.

DECIDING WHETHER TO PRIVATIZE

RECOMMENDATION #1 - The Commission recommends that the County consider a process which requires public managers to consider privatization at specified times or provides an incentive for considering privatization. Further thought should be given to the overall County requirements for program evaluation and whether an analysis of privatization can fit within that process.

Until this broader question is resolved, the Commission recommends a process which requires that privatization be considered at the initiation of any new program or expansion of an existing program, and that the Chief Administrative Officer and his counterparts at Montgomery County Public Schools the Maryland-National Capital Park and Planning Commission, and Montgomery College report to the Council on an annual basis regarding programs which will be considered for privatization.

The Commission notes for most government managers there may be a natural disincentive to consider privatization, since it could imply the loss of public employees or criticism (either direct or indirect) of the government's delivery of the service. It may be necessary to establish an incentive or requirement to insure that privatization is considered.

Rather than relying on each individual manager, the County should require that privatization be considered at specific points. If evaluations were conducted for all programs on a regular basis, this could provide an appropriate time at which to require that privatization is considered. Until this broader issue is addressed, the Commission recommends an interim policy.

RECOMMENDATION #2 - Interim policy.

- A. Each year the CAO should identify a list of existing programs which will be analyzed for privatization during the coming year. The independent agencies should establish similar procedures. These lists should be submitted to the Council together with a time schedule for the analysis.
- B. At the initiation of any new program or service the Office of Management and Budget should prepare a brief analysis to determine whether the program could be appropriate for privatization. If the answer is positive, a full analysis should be completed.
- C. Any request for an increase in resources should be accompanied by an analysis of whether the additional services or programs could be better or less expensively accomplished through privatization.

The Commission has identified a number of criteria which should be considered in deciding whether to privatize. The first step, however, is to establish a process to insure that privatization is considered for any program or service which requires a significant commitment of personnel and/or resources.

RECOMMENDATIONS - Criteria to consider when deciding whether to privatize.

- A. **Size of Program and Ability to Quantify.** It takes staff time to analyze a program and determine whether to privatize. Only those programs which involve a significant commitment of staff and resources are worth considering. It must also be possible to compare costs and benefits of public versus private provision of the service.
- B. **Cost.** This is the most complicated aspect of the analysis of privatization. The difficulty arises in trying to calculate the true cost of having the public sector provide a service or monitor a private contract. Cost analysis is further complicated by the fact that the lowest bid is not necessarily the best option since the contractor may not necessarily be able to deliver the service of the desired quality.
- C. **Quality and Quantity of Service.** While privatization may result in equal or better service at a lower price, a policy decision must be made as to whether government wishes to reduce the quality and/or the quantity of the service provided.
- D. **Legal Constraints.** Federal, state and local law must be reviewed to determine whether there are prohibitions which prevent privatization of certain services. The government must also consider whether there are any prohibitions on multi-year contracts of union agreements that prohibit privatization.
- E. **Personnel Issues.** Personnel related issues are often cited as one of the primary obstacles to privatization. Government should consider the following issues: the civil service rules that prevent displacement of public sector employees, the legal and moral obligations to existing employees, how affirmative action goals will be impacted, whether it is possible to have the private provider hire displaced public employees.
- F. **Quality of Private Providers.** Are there a sufficient number of private providers to assure competition? Are the private providers fiscally sound and stable enough to assure continuity of service? What is the experience of private firms in providing the service being considered? What is the experience of other governments?

- G. Administration and Control.** How will the government maintain control over provision of the service? How will the government receive feedback from the constituents being served? How will the service be measured and monitored? How difficult is the transition from public to private sector provision or the reverse? When equipment is involved, what are the technical implications? What is the potential for waste, fraud and abuse of conflicts of interest and can they be prevented?

RECOMMENDATION #4 - The scope of privatization efforts. The Commission recommends that whenever possible, the County should consider continuing to perform a portion of any service that is privatized or maintaining the ability to provide the service.

This retains the government's flexibility to return to publicly provided services and provides an ongoing source of comparison of the costs and benefits of public versus private provision. It is recognized, however, that it may not always be economically feasible to do so.

RECOMMENDATION #5 - The selection process. The County should consider only privatizing services whose costs and quality can be measured and adequately monitored. Performance standards specifying the quantity and quality of services should be included in all solicitations and contracts.

The Commission notes that public sector managers have various incentives to "sole-source" contracts, avoiding the competitive process and cautions that absent competition, it is very difficult to insure the lowest cost. Although competitive bidding is recommended as the best way to insure the lowest prices and greatest quality, it is critical that the County continue to make every effort to streamline and simplify the contracting process. Complicated and costly procurement processes can easily discourage quality contractors from bidding. Contract managers should be trained in the legal, financial and negotiating aspects of contract management.

RECOMMENDATION #6 - Treatment of public employees. To avoid the likely opposition of public employees and unions, it is wise, to consider privatization for new or expanding programs before employees are hired. If this is not possible the County should consider ways to assist any County employees displaced by privatization, including exploring options to have those employees hired by the private contractors who replace them.

Monitoring and Evaluation

One of the greatest problems reported by those who have had unsuccessful experiences with privatization has been the failure of the government to properly monitor and evaluate private contractors. There must be performance standards which provide a basis for determining whether the contractor is providing an adequate level of service. The standards must be measurable, both in quantitative and qualitative form.

One aspect of the monitoring should be an ongoing accounting of costs and means of comparing the costs of the contractors' services with the cost of public sector delivery. And as part of the monitoring effort, the government must identify a means of getting direct feedback from the citizens who are being served by the private provider.

RECOMMENDATION #7 - *The Commission recommends that each privatization project should have a detailed monitoring program to insure that performance standards are met. Adequate County staff with proper skills and training should be assigned to monitor each contract and insure that quality, as well as price standards are met. The staff assigned to monitoring must have (or receive through training) the specific skills necessary for contract monitoring, a task which differs substantially from actual program implementation.*

PRIVATE FINANCING OF PUBLIC INFRASTRUCTURE

Government typically funds large capital projects with tax-exempt bonds which offer lower interest rates than private bonds. There are instances where private financing may be preferable, and even less expensive. For example, private financing may be appropriate if the government has reached its legally or financially imposed debt limits, or if the tax benefits of private sector ownership offset the difference in the interest rates.

Hundreds of governments have had private companies finance energy conservation improvements and paid the companies some portion of the monetary savings contingent upon and attributable to the reduced energy consumption. Massachusetts has saved over \$4.5 million using this approach to finance energy improvements. Another area where private financing has been used is to fund the purchase of computer equipment, often in conjunction with ongoing service contracts.

RECOMMENDATION #8 - *Private financing of capitalized public infrastructure should be considered as an option if it can be accomplished in a manner which will not impact the County's ability to borrow from the bond market and if the financing can be obtained at an equal or lower cost.*

SUPPORT SERVICES

RECOMMENDATION #9 - *The County should begin exploring privatization options for all resource intensive programs. One area worth considering as a starting point is functions which are considered to be administrative support services and have been successfully privatized elsewhere.*

The following support services have been successfully contracted out in other jurisdictions and some contracting out of these services has been tried by the County. The Commission recommends that the County agencies begin an examination of the possibilities for privatization in areas such as the following:

- Building/grounds maintenance
- Building security
- Heavy equipment maintenance/fleet management
- Emergency vehicle equipment/fleet management
- Other vehicle maintenance/fleet management
- Payroll processing
- Tax bill processing
- Tax assessing
- Data processing
- Delinquent tax collection
- Title record/plat map maintenance
- Legal services
- Secretarial services
- Personnel services
- Labor relations negotiations
- Public information/public relations
- Auditing
- Architectural/design/planning services
- Records management
- Financial services
- Insurance/risk management
- Engineering services
- Management consulting

From Volume II of the
Report of the Commission to Review
the Efficiency and Effectiveness of Government

Criteria to Consider when Deciding whether to Privatize

The Commission recommends that seven criteria be considered in deciding whether to privatize the delivery of a service: the size and ability to quantify existing program, cost, quality of service, legal constraints, personnel issues, quality of private providers, and administration and control. Each is discussed below.

1. Size and Ability to Quantify Program: The analysis necessary to determine whether to privatize is complicated and time consuming and should not be undertaken for all County programs. Only those programs which involve a significant commitment of staff and resources are worth considering for privatization. In addition, the government must be able to clearly describe the quantity and quality of services it wishes to obtain. If it cannot be quantified in some form, it will be impossible to compare the costs and benefits of public versus private provision or to properly monitor the services being provided.
2. Cost: The most complicated aspect of an analysis of privatization is the comparison of costs of public versus private provision. The difficulty arises in trying to calculate the true costs of having the public sector provide a service or monitor a private contract. In both cases it is necessary to calculate equipment and supply costs, overhead and administration, the amount of time public employees spend on the program (including support staff) and the value of their time including salary, fringe benefits, and overtime. Since most governments are not accustomed to this type of program-related cost accounting, this can be a very difficult exercise.

The cost analysis is further complicated by the fact that the government should not simply evaluate the lowest cost, but the lowest reasonable cost when considering private contractors' fees. Among the many issues which should be considered to determine whether the cost is reasonable are whether a potential contractor is lowballing a bid to win a contract (potentially indicating that a quality job cannot be done at the price offered) or whether the contractor's costs are low because they are not offering fair wages or minimum benefits for their employees. Under either circumstance, the "lowest cost option" could lead to additional government costs in the future and may not be the best option.

In the mid-1980's, the County commissioned a study which examined how the County could prepare an analysis of the internal government cost of performing a selected government activity versus the internal government costs that would be incurred if the same activity were performed by a contractor from the private or non-profit sector. The contractors who prepared the study also created a computer spreadsheet program to conduct the analysis. The analysis required a significant amount of staff time to conduct and apparently has not been used since its preparation.

There are several factors to consider in a cost analysis: the potential for economies of scale; the comparative pay, fringe benefits and output of public versus private employees; the profit requirements for private providers; and the cost of facilities, equipment and other capital investment requirements.

3. Quality of Service: Privatization should only be considered as an option if it can result in equal or better services. The County must carefully examine the quality of the service currently being provided and ways to measure the quality of a provider's performance. Among the questions which must be considered are the following: Can the private sector offer the same level of services (both quantity and quality)? Will private provision of a certain service have a negative impact on other County services? Is there a greater potential for service disruption with public or private provision? Is the public or private sector better able to address emergencies? Can the private sector be as responsive to the needs and expectations of citizens as the public sector? If timing is important, can the private sector deliver the service/product more rapidly than the public sector? Will the private providers serve the "difficult-to-serve" population (i.e., service equity)?
4. Legal Constraints: Some state or local governments have prohibitions which prevent privatization of select or all services. Federal, state and local law should be reviewed. The government should also consider whether there are any prohibitions on multi-year contracts with private service providers or any union agreements or other agreements the County has entered into which prohibit privatization.
5. Personnel Issues: Personnel related issues are often cited as one of the primary obstacles to privatization. Before undertaking an effort to privatize a service, a government should consider the following issues: Do any civil service rules prevent the County from displacing public sector

employees with private contractors? What are the County's legal and moral obligations to existing employees and at what cost? How will affirmative action goals be impacted? Is it possible to have the private provider hire displaced public employees or otherwise place those who become unemployed?

6. Quality of Private Providers: The number and quality of private providers available for different services will vary. Among the questions which should be considered are the following: Are there a sufficient number of private providers to assure competition? Are the private providers fiscally sound and stable enough to assure continuity of service? What is the experience of private firms in providing the service being considered? What is the experience of other governments in privatizing the service and in working with the private providers in that area?
7. Administration and Control: Even if a private firm is hired, the government must still administer the contract, raising some of the most important questions: How will the government maintain control over provision of the service? How will the government receive feedback from the constituents being served? How will the service be measured and monitored? Are the staff and/or resources available for monitoring? How difficult will it be to transition from public to private sector provision (or the reverse)? When equipment is involved (particularly computers), what are the technical implications of transition? How difficult will it be for the government to switch providers or return to public provision of the service? What is the potential for waste, fraud and abuse or conflicts of interest and can they be prevented?

A study of each of the above criteria should assist the government in deciding whether or not privatization could be advantageous to the government.

**OLO REQUEST FOR INFORMATION ON IMPLEMENTATION
OF THE COUNCIL'S CONTRACTING POLICY**

General: Each County agency for which the Montgomery County Council has budget review and appropriation authority is requested to provide information to the Office of Legislative Oversight (OLO) on its compliance with Council Resolution No. 12-596, Contracting with Private Providers to Deliver Government Services. In Section I of this request, portions of the resolution are quoted and followed by the specific request(s) for information. Section II requests information on how your agency is implementing the Council's Directive on contracting.

Please forward your responses by **March 18, 1994**, to Joan Pedersen, Office of Legislative Oversight, Council Office Building, 100 Maryland Avenue, Room 509.

SECTION 1 COUNCIL RESOLUTION

Resolution No. 12-596: "Each year the Chief Administrative Officer (CAO) and his counterparts at other agencies should identify a list of all programs which will be analyzed for contracting out during the coming year. These lists should be submitted to the Council annually in conjunction with the submission of the respective budgets, with a time schedule for the analysis. The lists should include:

- a. A description of all new programs and services, and any program or service which is recommended for expansion, together with a recommendation as to whether it should be considered for contracting out. This recommendation should be based on a preliminary analysis of the criteria recommended by the Committee. If further study is required, the submission should identify the appropriate agency or office to conduct that analysis.
 - b. A list of existing programs which should be analyzed for contracting out in the next fiscal year. These recommendations should also be based on a preliminary analysis of the criteria and should include a recommended schedule and assignments for follow-up work."
1. **Information Requested by OLO:** Council Resolution No. 12-596 designates OLO to monitor the efforts of the various County agencies with regard to the required submissions. As monitor of this effort, OLO compiled information from the agency submissions and the FY94 recommended budget documents and prepared a schedule of agency programs contracted-out or identified for possible contracting. Enclosed is a copy of the OLO schedule. Please review the schedule for the accuracy of information compiled on contracting efforts for your agency. Also indicate if the information is accurate, or make any additions, deletions, or other changes necessary directly on the enclosed copy of the schedule and return it to OLO.
 2. **Information Requested by OLO:** Please provide OLO with copies of any lists on contracting that you have prepared for the FY95 budget process. If no lists were prepared, please compile and forward the information for FY95 using the enclosed OLO schedule for FY94 as an example.

Resolution No. 12-596: "The following criteria (as described in the MFP Committee's March 26, 1992 memorandum to the Council on this subject) should be used in evaluating whether a program is appropriate for contracting out:

- a. Size and Type of Program and Ability to Quantify
- b. Cost
- c. Quality and Quantity of Service
- d. Quality of Private Providers
- e. Legal Constraints
- f. Personnel Issues
- g. Administration and Control"

3. **Information Requested by OLO:** Please indicate whether your agency used all or part of the criteria contained in the Council's resolution, provide an assessment of the benefit and practicality of the listed criteria, and indicate whether additional or substitute criteria were used.

SECTION II IMPLEMENTATION OF THE COUNCIL'S DIRECTIVE

4. Please provide a general statement describing how your agency is implementing the Council's directive on contracting out the delivery of programs and services. Please include information on agency-wide activities, department involvement, etc.
5. Did the top administrators (and/or board, if applicable) of your agency issue any policies, guidelines, or directions on implementing the Council's policy on contracting; and/or develop any forms or other materials relative to the directive? (Please provide OLO with copies).
6. Each agency is required by the Council's Resolution to identify a list of all programs to be analyzed for contracting out during the next fiscal year, and include a time schedule for the analysis. Did your agency last year provide the Council with a listing of all programs planned for analysis during FY94? Did your agency this year provide the Council with a listing of all programs planned for analysis during FY95? Did the listing(s) include a time schedule for the analysis? (Please provide OLO with copies of your listings).
7. Did your agency last year (and/or this year) prepare a description of all new programs and services, and any program or service recommended for expansion, together with a recommendation as to whether it should be considered for contracting out? If so, did your listing indicate an agency or office to conduct further analysis when required? (Please provide OLO with copies of your listings).
8. Did your agency last year (and/or this year) prepare a list of existing programs which should be analyzed during the next fiscal year for contracting out? If so, did your listing(s) include a recommended schedule and assignments for follow-up work? (Please provide OLO with copies of your listings).

JMP/cca
770/34



Montgomery County Government

ROCKVILLE, MARYLAND 20850

MEMORANDUM

March 18, 1994

TO: Joan Pedersen, Program Evaluator
Office of Legislative Oversight

FROM: Deborah J. Snead, Senior Staff Specialist
Offices of the County Executive

SUBJECT: Council's Policy Directive on Contracting

In response to your request for information on the implementation of the Council's Contracting Policy, I have attached the section New and Expanded Programs from the Executive's Recommended FY 95 Budget and Public Services Program, Volume 2 (March 1994). Please note that the narrative responds to your questions and Tables 1 & 2 provide detailed information on the specific programs. I have also reviewed OLO's FY 94 schedule and noted that the information is correct.

Dave Bernstein, Senior Management & Budget Specialist in the Office of Management & Budget and I will work with you to coordinate this OLO project.

DJS/rm

Attachment

cc: w/out Attachment
Dave Bernstein, OMB

CONTRACT.OUT

NEW AND EXPANDED PROGRAMS

PROGRAMS CONSIDERED FOR CONTRACTING

The County Government contracts for professional and other services for several reasons:

- The needed services may be specialized, requiring skills that are not currently available within the County workforce.
- The needed services may be required only temporarily, periodically, or occasionally, making it cost-ineffective to maintain staff with those skills within the County workforce.
- The needed services may be readily available from the private sector at competitive costs.
- The needed services may not be cost-effective for the government to provide for itself because of the need for special equipment, special facilities, and/or other components that would have to be maintained.

In government programs, contracting out is a form of alternative service delivery; that is, an alternative to the government's direct provision of a particular service. This alternative may be chosen in an effort to reduce costs or improve quality of service beyond that available within the government's own staff resources. The correct emphasis in contracting out is to obtain cost-effectiveness and efficiency through competitive markets without a reduction in the quality or quantity of service provided and without surrendering appropriate public responsibilities to the private sector. It should be noted that the County Government contracts with other government units and non-profit organizations as well as with private companies in order to find the most appropriate fit between service provision and service provider.

County Council Resolution No. 12-596 passed in March 1992 requires consideration of contracting out for new or expanded programs. The resolution requires a description of all new programs and services, and any program or service recommended for expansion, together with a recommendation as to whether the service should be considered for contracting out. This budget provides the required information in the pages that follow. Table 1 contains a list of programs for which new or expanded funding has been included in the Executive's recommended budget. Only those new or expanded programs that involve adding personnel or contractor funding are included. In each case the Executive is recommending funding for County staff, contractors, or a combination to provide the new or expanded program or service. A brief description of each program or service and a brief justification for the funding mix, if appropriate, is provided. Information is presented for Executive Branch departments only. Funding is shown for only Personnel Costs (including Fringe Benefits) or contractor services components. Information on other related Operating Expense or Capital Outlay funds for the program or service may be found in the "Program Descriptions" section of the relevant department's budget narrative.

In addition, the Council resolution requires a list of existing programs to be analyzed for contracting out potential, to determine whether there are significant cost-benefits or other reasons for contracting out the service or activity. A preliminary list of such studies is provided in Table 2. Information is provided that describes the program being considered for contracting out. When available, information is provided on the fiscal year in which the study or analysis will be conducted (FY 94 or FY 95) and on the cost of the program as currently configured. The County Executive and the Chief Administrative Officer have delegated to individual Executive Branch departments the responsibility for planning, conducting, and using the results of evaluation studies, including contracting out analysis. Departmental evaluation plans may change depending upon departmental, Executive, or County Council priorities.

TABLE 1
FY 95 NEW AND EXPANDED/ENHANCED PROGRAMS
INVOLVING COUNTY STAFF OR CONTRACTORS

BOARD OF INVESTMENT TRUSTEES

Program Area: Compensation

New Activity: The County is establishing a defined contribution retirement plan for new non-public safety employees to be called the "Employees Retirement Savings Plan." The County will contract for investment management and financial counseling services. The Executive believes that these services are readily and cost effectively available in the private sector, and is therefore recommending that this be contracted.

WYs: 0.0 Personnel Costs: \$0 Contractor Funds: \$100,000

COUNTY ATTORNEY

Program Area: Litigation Services -- Non-Self Insurance

Expansion/Enhancement: The Executive recommends the addition of a Legal Assistant to facilitate research and trial preparation, and to coordinate accounts receivable collections cases in District, Circuit, and Bankruptcy Courts. This is expected to result in collection of additional personal property tax claims owed to the County. County staff is preferred because this function is anticipated to continue for several years, appears to be revenue neutral, and because of the need to work closely with County Attorneys who will prepare legal actions resulting from this work.

WYs: 1.0 Personnel Costs: \$41,040 Contractor Funds: \$0

COMMUNITY USE OF SCHOOLS

1. Program Area: Community Access to Public School Space (CUS)

Expansion/Enhancement: The program will be expanded to include 50 additional schools in the Adopt-a-Field Program. The Executive recommends contracting because it provides enhanced flexibility in developing field use agreements with community groups.

WYs: 0.0 Personnel Costs: \$0 Contractor Funds: \$10,000

2. Program Area: Community Services in Public Schools (CUS)

Expansion/Enhancement: The program is being expanded by hiring a contractor to assist the department's Grants Coordinator with a pilot project to develop more grant proposals for new and existing programs. These services are readily available in the private sector allowing the department to obtain the needed services in a cost effective manner.

WYs: 0.0 Personnel Costs: \$0 Contractor Funds: \$5,000

CORRECTION AND REHABILITATION

Program Area: Inmate Services -- Educational Services at the Detention Center

Expansion/Enhancement: The Executive recommends an enhancement of existing educational services, including additional staff hours, an increase in the school cycle from seven to eight weeks, and a blueprint reading class. Services are provided on a contractual basis by Montgomery County Public Schools.

WYs: 0.0 Personnel Costs: \$0 Contractor Funds: \$24,300

ENVIRONMENTAL PROTECTION

1. Program Area: Refuse Collection -- Residential

New Activity: The Executive recommends new funding for contract assistance to 1) promote changes to the residential refuse collection program; 2) obtain technical assistance in drafting Executive Regulations to ensure that they will be understandable to the public; 3) develop other print materials, newsletters, and surveys to enhance communication between the Department and Subdistrict A (Solid Waste Collection District). In addition, the Executive recommends funding for technology assessment activities. The Executive believes these services are readily and affordably available in the private sector.

WYs: 0.0 Personnel Costs: \$0 Contractor Funds: \$134,220

2. Program Area: Solid Waste Management -- Dickerson Area Technical Services

Expansion/Enhancement: Funds are recommended to develop a master plan designed to accommodate the operation of solid waste management facilities in the Dickerson area. Funds are also included to provide design and installation of landscaping to minimize the impact of installation and management of the facilities. Contract funds are recommended because development of these activities is not anticipated to be an ongoing project and because existing County staff are not positioned to provide these services.

WYs: 0.0 Personnel Costs: \$0 Contractor Funds: \$300,000

3. Program Area: Solid Waste Management -- Recycling/Composting

Expansion/Enhancement: The Executive recommends additional operating contract funds to obtain technical support to assess and manage expansion of the compost facilities to accommodate the County's Yard Waste Recycling Program. Because of the technical nature of this activity and because compost operations are already contracted, the Executive recommends an expansion of contractor funds.

WYs: 0.0 Personnel Costs: \$0 Contractor Funds: \$285,000

4. Program Area: Solid Waste Management -- Recycling Program Development

Expansion/Enhancement: The Executive recommends an increase in contractor funding to provide additional technical support for strategic planning and program evaluation activities. The Executive recommends that contractors be used because contractor services enhance objectivity of planning and evaluation activities, and because these services are already contracted.

WYs: 0.0 Personnel Costs: \$0 Contractor Funds: \$60,000

5. Program Area: Solid Waste Management -- Waste Reduction

Expansion/Enhancement: In order to continue and enhance education of the public regarding waste reduction, the Executive recommends additional contractor funds to develop education and outreach materials. Funding will go to support existing contracts for these activities.

WYs: 0.0 Personnel Costs: \$0 Contractor Funds: \$309,000

6. Program Area: Solid Waste Management – Resource Recovery Facility (RRF)

Expansion/Enhancement: The Executive recommends an expansion of the existing program in order to establish a baseline against which to measure the impact of the RRF on the environment. The scope of the evaluation is being expanded beyond the Dickerson area. This is an expansion of an existing contract.

WYs: 0.0 Personnel Costs: \$0 Contractor Funds: \$425,000

7. Program Area: Stormwater Discharge -- Clean Water Act Enforcement

Expansion/Enhancement: The Executive recommends the addition of four full-time positions (3.2 WYs in FY 95) due to the need to meet Federal and State mandates under the Clean Water Act. The new positions will: 1) enforce regulations concerning illegal discharges; 2) inspect and sample water from storm drainage; 3) conduct field reviews of stormwater management and sediment control plans; 4) coordinate reporting requirements; and 5) work with municipalities to ensure that they also meet Federal and State mandates. The Executive recommends additional staff due to the regulatory and enforcement nature of this function.

WYs: 3.2 Personnel Costs: \$133,490 Contractor Funds: \$0

8. Program Area: Solid Waste Management -- Accounting and Financial Management

Expansion/Enhancement: The Executive recommends the addition of two full-time positions (1.6 WYs in FY 95) to provide additional accounting and financial management oversight for the Solid Waste Disposal Fund. In addition, these staff will provide support to the Solid Waste Collection Fund. The Executive recommends additional staff because sound fiscal management is a primary and fundamental role of the County Government and such oversight generally is not delegated to contractors.

WYs: 1.6 Personnel Costs: \$ 90,710 Contractor Funds: \$0

9. Program Area: Solid Waste Management -- Enforcement

Expansion/Enhancement: The Executive recommends the addition of three full-time inspectors (2.4 WYs in FY 95) to provide additional resources for inspection and enforcement of State and County bans on tire disposal, large household appliances, and yard trim. Two of the positions will deal with Countywide enforcement issues, while the third will be dedicated to the Central Business Districts.

WYs: 2.4 Personnel Costs: \$92,310 Contractor Funds: \$0

FINANCE

1. Program Area: Risk Management – Safety Program

New Activity: The Executive recommends the addition of funds to hire a contractor to work with Risk Management staff to target potential improvements in those areas that historically experience high levels of worker's compensation claims. The Executive intends to use a contractor that can bring in specialized expertise to specifically address problem areas.

WYs: 0.0 Personnel Costs: \$0 Contractor Funds: \$75,000

2. Program Area: Risk Management – Worker's Compensation

New Activity: The Executive intends to obtain the services of a contractor for worker's compensation cases to provide utilization reviews of physician and hospital treatments, bill review, and coordination of benefits with the employees' group health provider to avoid double payments by the provider and worker's compensation.

WYs: 0.0 Personnel Costs: \$0 Contractor Funds: \$150,000

GOVERNMENT SERVICES CENTER

Program Area: Government Services Centers

Expansion/Enhancement: The Executive recommends the addition of a full-time Program Manager (1.0 WY) and a part-time Office Services Manager (0.5 WYs) dedicated to serving the eastern portion of the County. The Executive is proposing additional staff as opposed to contracting because these positions represent and act as a liaison on behalf of the County Executive.

WYs: 1.5 Personnel Costs: \$81,490 Contractor Funds: \$0

HEALTH AND HUMAN SERVICES SECRETARIAT

1. Program Area: Children, Youth, & Families--Child Protective Services (DSS)

Expansion/Enhancement: The Executive recommends an increase of \$55,290 and 1.0 WY for a Community Health Nurse to assist the physician who examines children suspected of having been sexually abused or assaulted. This creation will be offset by a reduction in the physician's time by 0.2 WY. Because of the sensitive nature of the work involved and the need for a close ongoing working relationship with the physician and DSS staff, the Executive recommends County staff as opposed to contracting.

WYs: 1.0 Personnel Costs: \$55,290 Contractor Funds: \$0

2. Program Area: Children, Youth & Families -- School Health Services (Health)

Expansion/Enhancement: The Executive recommends the addition of 26 Health Room Technicians (HRTs) to staff 26 elementary schools so that there will be a Health Room presence in every public school. The HRTs at these schools will work half the normal work day of HRTs in those elementary schools that are currently staffed. The Executive recommends against contracting this service because of the nature of the duties performed and the requirement that the HRTs work under the direct supervision of school nurses.

WYs: 8.1 Personnel Costs: \$188,180 Contractor Funds: \$0

3. Program Area: Homelessness Programs -- Shelter Services (DSS)

Expansion/Enhancement: The Executive proposes to expand the homeless adult system in order to complement existing services managed through partnerships with private non-profit and religious groups. Funds will be used to: 1) provide contractual mental health and addictions counselling in some shelters; 2) contract for after-hours assessment services; and 3) develop a database system to monitor adult shelters administered by the Department of Social Services.

WYs: 0.0 Personnel Costs: \$0 Contractor Funds: \$140,000

4. Program Area: Persons with Disabilities & Senior Citizens--In-Home Aide Services (DSS)

Expansion/Enhancement: This program provides personal care assistance to frail elders and disabled adults to allow individuals to safely remain in their homes rather than be institutionalized. Because contracts with private home health agencies have proven to be an effective way to provide these services, the Executive recommends an expansion of these services using contractors to serve an additional 52 frail seniors and 13 physically or mentally impaired adults.

WYs: 0.0 Personnel Costs: \$0 Contractor Funds: \$321,420

5. Program Area: Women's Health -- Maternity Services (Health)

Expansion/Enhancement: The Executive recommends the addition of three full-time Community Service Aide I (CSA) positions (3.0 WYs) to provide client assistance and interpretation activities at three area health centers. The number of foreign born clients served in Area Health Centers has increased from 32 percent in FY 88 to 50 percent in FY 93, and it is estimated that 70 percent do not speak English. County staff are recommended due to the anticipated ongoing need for translators and the technical training needed to perform this work.

WYs: 3.0 Personnel Costs: \$100,140 Contractor Funds: \$0

HOUSING AND COMMUNITY DEVELOPMENT

Program Area: Landlord-Tenant Affairs -- Licensing & Registration

Expansion/Enhancement: The Executive recommends implementation of a workplan to convert from WANG to an IBM LAN system, image all license files, and to automate billing and licensing for multi-family units, accessory apartments, and common ownership community units. The Executive recommends that contractor resources be used to facilitate this program enhancement.

WYs: 0.0 Personnel Costs: \$0 Contractor Funds: \$168,740

HUMAN RESOURCES (PERSONNEL)

1. Program Area: Employee Benefits

New Activity: The County will provide a flexible/cafeteria benefits plan to new non-represented employees so they may select employee benefit options from a menu of available choices, allowing these employees to customize their benefits to their individual/family needs and enable the County to better control benefit costs. The Executive recommends that this be accomplished through third party administration of this program, and believes that the private sector has readily available and competitive expertise for this.

WYs: 0.0 Personnel Costs: \$0 Contractor Funds: \$40,000

2. Program Area: Employee Development and Training

Expansion/Enhancement: The need for additional technology training for County employees requires the expansion of computer training in the Computer Information Center training room. The Executive believes that the large number of contractors in the private sector will allow for competitive bidding to ensure cost effective procurement of services for the County.

WYs: 0.0 Personnel Costs: \$0 Contractor Funds: \$40,000

3. Program Area: Personnel Support Services

Expansion/Enhancement: Classification maintenance review studies are overdue for approximately 180 class series as of the end of 1993. Without additional contract labor, it is unlikely that the backlog will be eliminated. The Executive recommends that services of two full-time contract employees be procured for one year to address the backlog. Contract services are appropriate since the identified need is temporary.

WYs: 0.0 Personnel Costs: \$0 Contractor Funds: \$80,000

LIQUOR CONTROL

1. Program Area: Liquor Retail Operations -- Flower Avenue Store

Expansion/Enhancement: The Executive's FY 95 recommended budget includes funding for County staff at the Flower Avenue Store in Takoma Park, but the Executive is exploring the possibility of contracting for operation of this store. Based on preliminary analysis of three existing contractor-operated stores (Kensington, Muddy Branch, and the Pike Store), the department is developing an RFP to see if there would be interest in the private sector in operating a smaller, less profitable store. If workable bids are received, the Executive will consider amending the FY 95 Recommended Operating Budget to move Personnel Costs to Operating Expenses in order to pay contractor commissions to operate the store.

WYs: 4.3 Personnel Costs: \$167,980 Contractor Funds: \$0

2. Program Area: Liquor Retail Operations -- Silver Spring 16th Street Store

Expansion/Enhancement: The Fenton Street store in Silver Spring was opened in late February 1994 to replace the existing store on 16th Street. The change was proposed after the 16th Street store experienced operating losses in FY 92 (ending June 30, 1992). The 16th Street store appears to have rebounded in FY 93 (ending June 30, 1993). Given the continued success of this store in the first six months of FY 94, the Executive is temporarily keeping the 16th Street store open to see if the trend indicates a viable market area. DLC will monitor the potential profitability of the 16th Street store in conjunction with the Fenton Street store, and is considering contracting options in determining whether two stores can continue to operate in the Silver Spring area. Because the Executive's Recommended FY 95 Operating Budget assumes an expenditure level for only the Fenton Street store, anticipated cost information for FY 95 for the 16th Street Store is not available at this time.

WYs: 0.0 Personnel Costs: \$0 Contractor Funds: \$0

POLICE

1. Program Area: Administration -- Alarms Reduction Unit

New Activity: This unit is responsible for the administration of activities related to programs reducing the incidence of false alarms including registration of all burglar alarm users, tracking false alarm calls, billing and collecting all false alarms response fees, hearing appeals of fees, and licensing alarm companies. This program is administered through a combination of contract personnel and County staff in order to achieve maximum efficiency while maintaining security and confidentiality in a highly sensitive area.

WYs: 3.5 Personnel Costs: \$226,950 Contractor Funds: \$220,210

2. Program Area: Central Processing Pilot Program

New Activity: The Police Department will conduct a pilot of the Central Processing Program to determine if it will reduce the amount of administrative time officers spend in processing arrestees, thereby increasing the time available for community policing functions. This program will use both sworn officers and temporary corrections officers. Due to the direct public safety impact of this program, contracting out would be inappropriate.

WYs: 2.0 Personnel Costs: \$120,550 Contractor Funds: \$0

3. Program Area: Community Policing

Expansion/Enhancement: The addition of 32 officers will move the County closer to the goal of 46 beats with 35 percent of each officer's time dedicated to community policing activities. These positions were agreed to by the Executive and Council during FY 94 budget deliberations. Due to the direct public safety nature of this program, contracting out these positions would be inappropriate.

WYs: 29.8 Personnel Costs: \$1,106,520 Contractor Funds: \$0

4. Program Area: Patrol Response Operations

Expansion/Enhancement: The Executive recommends funding for a study to investigate the positive effects on productivity and efficiency of in-vehicle notebook computers. The use of in-vehicle computers could free up officers' time as they will have faster and better access to a variety of law enforcement systems and spend less time writing and filing reports. Additionally, staff productivity will be enhanced as computerization creates lessens filing backlogs. Due to the lack of Police Department staff resources and the specialized nature of the study, conduct of this study will be contracted out.

WYs: 0.0 Personnel Costs: \$0 Contractor Funds: \$50,000

PROCUREMENT

1. Program Area: Procurement of Goods and Services

Expansion/Enhancement: A contractor's services will be obtained to perform cost and price analysis for new competitively negotiated procurements in excess of \$100,000, and contract modifications and sole sources of greater than \$25,000. The Executive believes that the private sector has sufficient vendors to provide this service in a cost effective and competitive manner.

WYs: 0.0 Personnel Costs: \$0 Contractor Funds: \$50,000

2. Program Area: Minority, Female, and Disabled (MFD) Procurement

Expansion/Enhancement: The Executive recommends the addition of \$25,000 for contractor services to 1) review and make recommendations to the County on a prime contractor's plans for MFD subcontracting; and 2) certify vendor eligibility for inclusion in the disabled MFD category. Given limited available resources, contracting for this service was the only viable option.

WYs: 0.0 Personnel Costs: \$0 Contractor Funds: \$25,000

RECREATION

Program Area: Recreation Activities for Youth

Expansion/Enhancement: The Executive recommends \$60,000 for staff and operating expenses for two new teen centers. The centers will be operated jointly by the Department and the private sector in a public/private partnership in order to assist at least two communities in establishing drop-in teen centers.

WYs: 5.3 Personnel Costs: \$48,400 Contractor Funds: \$0

SILVER SPRING URBAN DISTRICT

Program Area: Conservation Corps

Expansion/Enhancement: The Executive recommends the addition of \$100,000 (\$85,630 in Personnel Costs) and 4.5 WYs for the addition of a second Silver Spring Urban Crew to increase the safety of the urban district for residents, visitors, and businesses by deterring crimes through a strong and visible presence. Use of the Conservation Corps is a cost effective and efficient mechanism for obtaining services.

WYs: 4.5 Personnel Costs: \$85,630 Contractor Funds: \$0

TABLE 2
Executive Branch Contracting Out Studies/Analysis
(Not Including Studies by the County Council or the Office of Legislative Oversight)

CORRECTION AND REHABILITATION

1. Program Area: Detention Center Food Services

The department will review the fiscal impact of contracting out food service for the Detention Center to determine any operating and/or program efficiency improvements.

WYs: 6.0 Program Costs: \$265,670

2. Program Area: Medical Services

The department will review the fiscal and programmatic impact of contracting out medical services for the Detention Center to identify operating and/or program efficiency improvements.

WYs: 13.3 Program Costs: \$709,250

3. Program Area: Detention Center Inmate Accounts

The department will review the fiscal impact of contracting out the inmate accounting function at the Detention Center to determine any operating and/or program efficiency improvements.

WYs: 1.0 Program Costs: \$41,000

4. Program Area: Detention Center Laundry Services

The department will review the fiscal and programmatic impact of contracting out laundry services for the Detention Center to determine any operating and/or program efficiency improvements.

WYs and Program Costs not available.

HEALTH AND HUMAN SERVICES SECRETARIAT

1. Program Area: Children, Youth & Families (Health)

The Health Department studied the existing in-house audiology program to determine the feasibility and potential cost savings if this service was contracted. The study concluded that the department's costs are less than what private providers charge, including the discounted rates offered to the Montgomery County Public Schools. The department will consider contracting for hearing aid evaluation and selection, since clinics that sell hearing aids will often cover part of the cost of evaluation with profits made on the hearing aid device.

WYs: 0.7 Program Costs: \$75,964 (FY 94)

2. Program Area: Children, Youth, & Families (DFR)

In FY 94, a study is being conducted to determine the potential for contracting child care technical assistance provided to businesses (Child Care in the Workplace).

WYs and Program Costs not available.

DEPARTMENT OF TRANSPORTATION

1. Program Area: Transit Equipment Program (Equipment Management)

Expansion/Enhancement: The third shift operation of the Transit Equipment Program was studied to determine if contracting out was feasible and affordable so as to maximize the efficiency of the preventive maintenance program and light repairs for the paratransit fleet. As a result of this analysis, the third shift operation of the Transit Equipment Program will be contracted in FY 95.

WYs: 4.5 Personnel Costs: \$85,630 (94) Contractor Funds: \$249,750 (95)

2. Program Area: Paratransit (Transit Services)

Expansion/Enhancement: The County is serving as a contractor to the Washington Metropolitan Area Transit Authority (WMATA) to provide regional Americans for Disabilities Act (ADA) paratransit services. The costs of the services are offset by increases in State revenue. The County is subcontracting with private taxi companies to provide this service because companies have available capacity that the County does not.

WYs: 0.0 Personnel Costs: \$0 Contractor Funds: \$329,000

DEPARTMENT/AGENCY CONTRACTS

Department: Health Department

Program Name	Contract Description	Budget FY 94	Request FY 95
CHILDREN, YOUTH AND FAMILIES			
Care-For-Kids	Comprehensive Medical Care for Children	118,500	118,500
Dental	Specialty Dental Services	83,360	83,360
School Health	Scoliosis Screening	12,000	12,360
School Health	School Health Services Center-Lab & Prof. Svcs	7,500	0
Head Start	Medical and Dental Services	20,700	21,500
Area Health	Family Practice Services	44,000	0
Child and Adolescent	Sick Care Services	376,750	380,000
Child and Adolescent	EPSDT Services	67,380	67,380
PERSONS WITH DISABILITIES			
Children's Special Medical Evaluations	Medical Specialty Services	67,000	66,500
PUBLIC HEALTH			
Tuberculosis Control	Physician Services-Radiology	7,210	6,430
STD/HIV Prevention & Treatment	HIV Treatment Specialty Services, Hospice, & Counselling Services	114,920	117,400
Health Promotion & Prevention	Mobile Medical Services to Adults	17,000	12,970
SENIOR CITIZENS			
Assessment Center	Visiting Nurse Services	21,000	25,000
WOMEN'S HEALTH			
Family Planning	Family Planning Services	190,000	195,700
Maternity	Obstetrical Services	49,000	50,000
Maternity	Adolescent Case Manager Services	25,360	25,360
Woman, Infants and Children	Nutrition Services	35,000	35,000
Breast & Cervical Cancer	Radiology Services	131,340	131,340
Total		1,388,000	1,348,780

Example of information on existing contracts. Each Executive Branch Department and Office submits a chart like this as part of its budget request. Copies are forwarded to the Council.

(Notation added by OLO)

Montgomery
College

March 15, 1994

Ms. Joan M. Pedersen
Program Evaluator
Office of Legislative Oversight
Montgomery County Government
100 Maryland Avenue
Rockville, Maryland 20850

Dear Ms. Pedersen:

In response to your request for information regarding
"Contracting Out" initiatives, I offer the following.

SECTION I COUNCIL RESOLUTION

1. The OLO schedule as written is correct for FY 94.
2. The FY 95 list of topics for contracting out review for FY 95 are:
 - Security of Campuses
 - Painting of Buildings
 - Grounds Maintenance (continuation)

Note: Dollar amounts not determined at this time.

3. The College used all of the council's criteria in analyzing the four areas considered for contracting out in FY 94. The listed criteria seem to adequately cover issues encountered during the reviews.

SECTION II IMPLEMENTATION OF THE COUNCIL'S DIRECTIVE

4. The College has incorporated the review of contracting out into the normal budget review for the operating budget. The Budget Resource Group each year identifies areas from the College at large that should be considered for the analysis. From this list a responsible official from the Finance or Budget Office makes a recommendation to the President's Office as to which and how many items to proceed to study. All campuses and areas of the College are represented on the

Budget Resource Group, therefore all activities of the College are potential candidates for review. It is important to note that the College has always conducted such reviews, but previously on a less formal basis. The Council's directive has helped institutionalize and concentrate the efforts.

5. No new policies, guidelines or procedures were necessary since the College, as mentioned above, already conducted such reviews.

6. The College did provide the Council with a list of programs analyzed for contracting out in FY 94. The College also recently, on schedule, provided the Council with a similar list for FY 95.

7. The College provided material as requested (see attached).

8. The College provided material as requested (see attached).

If additional information is required, please let me know.

Sincerely,

Michael King
Michael King
Director of Finance

statewide network. This Bell Atlantic proposal could offer the College opportunities to share instruction statewide.

The College also offers the flexibility providing credit courses by contracting with an employer to provide instruction at its site.

2. User Fees

- a. What user fees did you impose, and with what rationale?**
- b. Are there any services for which you do not charge a fee but for which a fee could be charged under the Council criteria?**
- c. Where do your fees diverge in concept from the Council's criteria?**

The Board of Trustees is responsible for approving all matters related to user fees including new fees and increases in existing fees. In the last two fiscal years, a variety of new fees and increases on existing fees have been implemented. New fees implemented include an application fee, replacement diploma fee, library fines for overdue book and major facilities reserve fund (facilities use fee). Also, significant tuition increases have been implemented amounting to a 36% increase over the last five years.

The review of user fees is an on-going process and major changes are incorporated into the budget review process starting in October. The Board reviews user fees as the need arises during their monthly meetings. Council approval is not needed to set College user fee policies. Attachment 5 is a current schedule of the College's fees.

3. Contracting Out

- a. Please provide the information requested in the resolution on contracting out with regard to both existing and new programs, and the results of your analysis for each program considered.**

The College reviewed four areas for contracting out during the past year. The update is as follows:

Child Care - The Board of Trustees is in favor of maintaining quality and exceptional services. It was the College's findings that outside agencies are not directed to insuring student success nor meet the needs of the College community by offering affordable, quality child care at the times and rates students, faculty and staff need them the most. Further, it was decided that the unique needs of the College environment probably would not be met by an organization which is guided by the requirements of commerciality. Most private providers refuse to offer hourly child care, an essential need for College students.

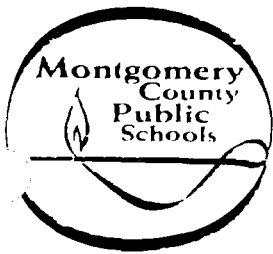
Payroll - The College concluded that outsourcing payroll was a viable option. This will be further investigated after a decision is made on which system will replace the ISI

Human Resource system. A requirement of any new system will be that it have outsourcing capabilities.

Computing contracts - The College bid out hardware and system software maintenance for the HP and IBM mainframes which resulted in a substantial cost savings.

Facilities Services - The College concluded that contracting out facilities operations beyond current specific contracting already taking place would not produce desired cost savings or maintain quality of service.

For the current year, the College will conduct reviews of the feasibility of contracting out security and painting. Furthermore, the College will continue to explore the cooperative opportunities with the other agencies primarily in the areas of grounds maintenance where we have already begun some cooperative arrangements with the public schools. Also, we are asking the County to respond to our request for bids for a new Human Resource Information System.



850 Hungerford Drive * Rockville, Maryland * 20850-1747
Telephone: 279-3626

May 11, 1994

Ms. Joan Pederson
Program Evaluator
Office of Legislative Oversight
Montgomery County Council
100 Maryland Avenue
Rockville, Maryland 20850

Dear Ms. Pederson:

This letter is in response to your request for information pertinent to the Office of Legislative Oversight's review of the County Council's directive on contracting with private providers to deliver government services. The Montgomery County Board of Education and Dr. Paul L. Vance, superintendent of schools, have complied with County Council resolution No. 12-596 requiring each county agency to continually evaluate new and existing services and programs for possible contracting. Although no new programs have been included in the Board of Education's FY 1995 Operating Budget Request, we have decided to move forward with efforts to study the feasibility of contracting several critical existing services.

In the past several years, Montgomery County Public Schools (MCPS) implemented contracts for the following services:

- Transportation - Maintenance and repair of certain vehicles and physical examinations of employees
- Technology Planning and Data Operations - Some programming and systems support
- Plant Operations - Equipment repair
- Special Education and Related Services - Physical and occupational therapy
- Food Services - Equipment servicing and surplus food storage

A listing of all services that are contracted by MCPS is attached.

As part of the FY 1994 budget development process, all nonschool-based managers in MCPS were required to consider alternative ways to provide each of their services, including the possibility of contracting out. As part of the FY 1995 budget development process, we have focused our review on three areas -- transportation, plant operations and maintenance. This is consistent with our efforts to improve efficiency and to address the recommendations of the Corporate Partnership for Managerial Excellence.

In the area of transportation, we are considering a pilot contract for school bus services provided through one of the school transportation depots. This pilot program must be implemented in a large enough area to provide sufficient economies of scale to make service delivery beneficial at an efficient cost to MCPS. The pilot program will include all services provided by the Clarksburg depot, including maintenance and management. The area served by the Clarksburg depot provides an optimal location because of its geographic area and its relatively small student population. The expected savings are \$200,000.

We will also consider a pilot contract for building services in one cluster. Many governmental agencies and corporations have found such contracting to be economical and effective. However, there are many non-quantifiable factors that must be monitored, including cleanliness of facilities, reporting of necessary maintenance, relationships between building services staff and the school, and responsiveness to concerns. The estimated savings are \$100,000.

Finally, we will continue to identify additional areas in the maintenance program for contracts. Currently, the maintenance division is contracting for painting, flooring, vehicle and elevator repairs, air conditioning and heating. Other potential areas for contracting services include grounds maintenance.

There are three other service areas where contracts have recently been approved by the Board of Education. First, the Department of Special Education Programs and Services has implemented a Medical Assistance Program to capture Medicaid revenue and has contracted with a medical services management company to process the claims to Maryland Medical Assistance at a cost of \$82,675. A decision was made to contract for this service after it was determined that it would be more cost effective than having to fund the salaries and benefits of 1.5 positions, computer hardware, and specialized software programs.

Second, beginning in FY 1994, funding for contractual services is provided to develop and implement a turnkey in-house computer-assisted scheduling and routing system to increase bus scheduling efficiencies. Currently, a pilot program is in operation with plans to expand the system to all four transportation depot clusters in the county.

Finally, to conserve energy while providing schools with greater flexibility with their resources, the Board has expanded the School Energy Rebate Team (SERT) program. This program encourages schools to reduce their energy consumption by returning a portion of the savings directly to the school for their use in funding projects or programs of their choice. MCPS will contract for the services and support that are needed to implement this program.

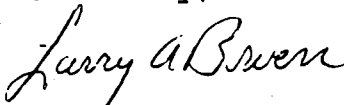
Ms. Joan Pederson

- 3 -

May 11, 1994

Please let me know if you need any additional information about MCPS' efforts to contract with private providers to deliver government services.

Sincerely,



Larry A. Bowers
Chief Financial Officer

LAB:mww

Enclosure

Copy to:

Members of the Board of Education
Dr. Vance
Mrs. Gemberling
Dr. Rohr

MCPS CURRENT CONTRACTING EFFORTS
(Condensed by OLO from Attachment to 5/11/94, Memo Submitted by MCPS)

Elementary, Middle and Senior High Schools

Instrumental Music Program Maintenance- - - - - \$99,421

Middle Schools

Science Program
Disposal of Hazardous Science Materials and Chemicals - - - - - \$16,750
Laboratory Equipment Maintenance - - - - - \$29,868
Home Economics and Technology Education Program
Maintenance Contracts for Appliances - - - - - \$31,340

Senior High Schools

Paramedic Coverage - - - - - \$9,494

Department of Educational Accountability

Annual Audit of Financial Statements - - - - - \$88,200
Microfilming of Financial Computer Records - - - - - \$17,000

Department of Academic Programs

Supplemental Education Services to Children - - - - - \$114,515
Independent Scoring Tests - - - - - \$5,810

**Division of Health, Physical Education
and Athletics**

Prevention Center Operations - - - - - \$250,000

Diagnostic and Professional Support Team

Legal Services for Special and Alternative Education

Department of Alternative Programs

Interagency and Alternative Educational Programs for Adolescents - - - - \$4,000
Printing Services for the Summer School and Adult Education Brochures - \$83,556

Department of Comprehensive Student Services
Home Construction Unit

Short-Term Instructional Service to Students at Home or in Hospitals - -\$14,990

International Student Admissions Office

Translation and Interpretation for International Students - - - - - \$3,636

Department of Special Education
Programs and Services

Maryland Medical Assistance Program Claims Processing - - - - - \$82,675
Audiological Testing and Evaluation Services - - - - - \$22,612
Physical/Occupational Therapy, and Speech and Language Services
for Disabled Students - - - - - \$303,000

Division of Insurance and Retirement

Pre and Post Retirement Seminars for Employees
Administration of Pension Fund Investments

Office of Personnel Services

Psychological Examinations for Employee Conduct Investigations

Systemwide Training Unit

Training Services for Teachers, Support Staff and Supervisors - - - - - \$97,286

Division of Materials Management

Printing Services for Duplicate Procurement Forms - - - - - \$8,276
Materials Testing of Services and Goods Offered in Response to Bids - - \$1,375

Division of Transportation

Maintenance and Repair Services- - - - - \$410,002
Private Transportation Services - - - - - \$28,385
Physical Examination Services for Bus Drivers - - - - - \$107,540
Contractual Services to Develop and Implement a Computer-
Assisted Scheduling and Routing System - - - - - \$85,000
Special Education/Private School Transports - - - - - \$196,556

The Department of Technology Planning
and Data Operations

Mainframe Applications and Systems Programming Support and
IBM Repair and Maintenance - - - - - \$412,153

Division of Maintenance

Carpet Removal and Installation
Installation, Floor Refinishing, Bleacher Welding Repairs, and Concrete Work
Vehicle, Elevator, Air Conditioning and Heating Repairs

Division of Construction

FY95 CIP Contracts - - - - - \$87,300,000

Division of School Plant Operations

FY95 the Board Approved a Pilot Contract for Building
Services in One Cluster - - - - - \$100,000
Equipment Repair - - - - - \$54,594

The Division of Food Services

Servicing of Vehicles, Kitchen Equipment, and Surplus Food Storage - - \$92,500

Department of Association Relations

Legal Services - - - - - \$301,667

898/1

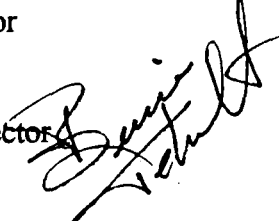


**HOUSING
OPPORTUNITIES
COMMISSION**
OF MONTGOMERY COUNTY, MD

10400 Detrick Avenue
Kensington, Maryland 20895-2484
(301) 929-6700
Fax numbers:
(301) 929-8523 - Development
(301) 929-8499 - Client Services

M E M O R A N D U M

TO: Joan M. Pedersen, Program Evaluator
Office of Legislative Oversight

FROM: Bernard L. Tetreault, Executive Director
Housing Opportunities Commission 

SUBJECT: Implementation of the Council's Policy Directive on Contracting

DATE: April 8, 1994

This memorandum is in response to your February 8, 1994 request for preliminary information pertinent to the OLO review of processes used to implement the Council's policy directive on contracting. The Housing Opportunities Commission has used outside contractors and consultants for many years.

OLO Questions:

1) Status of FY 94 Contracting Out List:

During the FY 94 budget process HOC provided information to the County Council regarding contracting out. The information requested was specific to County funded areas of the budget only. As indicated in the material submitted last year, HOC contracts a significant amount of maintenance and development work agency-wide to private vendors depending on the costs and benefits. With regards to County funded programs, the following have been examined for contracting out (**Update information in bold**):

a) Day Care

Two years ago HOC conducted a program evaluation of its day care program. The evaluation determined that it is very difficult to break-even due to the small size of the centers and special needs of the clients. Based on the recommendations of that study, HOC combined two centers into one, and tried to contract out the delivery of services at its newest facility. No qualified providers were interested.

At its April 6th meeting, the Housing Opportunities Commission made a very difficult decision for the FY 95 year to convert the two day care centers in the public housing communities to family resource centers. This means that HOC



would no longer provide any day care services to its residents; however, we will provide specialized and enhanced services to all the members of the families in these two communities. The remaining day care center which is located at a non-public housing community would also close. At this time there is no plan for other services at this community.

b) Maintenance of public housing scattered sites

HOC has found it to be actually more cost effective to have staff provide basic maintenance since more than one repair can be handled by the same staff.

However, a significant amount of rehabilitation work and specialized maintenance work continues to be contracted out. The volume and size of the rehabilitation contracts for public housing properties has increased significantly with approximately \$2 million each year from the federal Comprehensive Grant Program. See the attached list of contracts.

Our proposed operating budget for FY 95 anticipates contracting out over \$2 million in on going maintenance costs for our properties.

c) Contract development staff for specific projects

HOC has hired non-career instead of career staff for specific development projects. These positions will be eliminated when the projects are completed.

HOC currently has two skilled development professionals on contract to HOC. In addition, HOC has begun to hire non-career staff for specific social service grants which have a one to two year life. When that grant expires, the position is eliminated. There are approximately 10 grant-specific non-career staff in HOC's recommended budget for FY 95.

2) **FY 95 Contracting Out list:**

During FY 95 the Commission will continue its practice of contracting out specific services. There are no new areas within the County funded programs that are being considered for contracting out for FY 95. There are two major contracting out efforts that you should be aware of:

a) Property management services for five current properties (total of 955 units) are currently contracted out to the private sector. There are three properties currently in the process of development (an additional 598 units) which will also be contracted out to the private sector.

b) Vehicle maintenance for a fleet 33 vehicles is currently being done through the County. We are working on a lease arrangement with the County for all our vehicles in the near future.

3) Comments on Criteria:

The Commission does not specifically use the Council's criteria in reviewing contracting out decisions; however, most findings are based on the same general areas.

4) General Statement Regarding Implementation of Directive:

As you can see from the attached list, the Commission contracts out a significant amount of work. The Commission will continue its practice of considering contracting out specific services.

Attachment

**HOUSING OPPORTUNITIES COMMISSION
SERVICES CONTRACTED OUT**

Parent Company:

Flexible spending account
Office security
Computer programming
Computer & network maintenance
Legal counsel
Office cleaning
Payroll
Supervisory and multi-cultural training

Property Management:

Assisted living property management and
services
Carpentry
Cement work
Cleaning services
Coin-op laundry
Electrical
Elevator maintenance
Exterminating & pest control services
Fire protection & extinguisher service
Grounds maintenance
HVAC maintenance
Landscaping

Social Services:

Specialized counseling services
Job training for residents
Grant writing

**Real Estate Development & Mortgage
Finance:**

Appraisals
Architectural & landscaping design
Bond counsel & underwriting
Construction
Engineering & environmental studies
Financial advisor
Financial reviews

Marketing
Painting
Plumbing
Pool maintenance
Refuse collection
Rental property management
Roof repair
Security systems
Snowplowing
Structure repairs
Towing service
Water treatment



WASHINGTON SUBURBAN SANITARY COMMISSION

14501 Sweitzer Lane • Laurel, Maryland 20707-5902 (301)206-8000 • 1(800)828-6439 • TTY:(301)206-8345

COMMISSIONERS
Lewis M. Helm, Chair
Robert M. Potter, Vice Chair
Henry T. Arrington
Robert G. Berger
Waymond D. Bray
Elizabeth Buck

GENERAL MANAGER
Cortez A. White

April 11, 1994

Ms. Joan M. Pedersen, Program Evaluator
Office of Legislative Oversight
Montgomery County Government
100 Maryland Avenue
Rockville, MD 20850

Dear Ms. Pedersen:

This letter is intended to provide the information you requested in your February 8 memo on the Council's policy directive on contracting. First, as asked, I will serve as the contact person for the Washington Suburban Sanitary Commission for this study. Second, I apologize for our failure to meet your deadline date of March 18. The memo was either misplaced or directed to an inappropriate office.

I would like to begin by stating that the WSSC has been in the business of contracting out services and consultant activities for many years, especially where it was clearly in the best interest of our customers and their ability to pay their water/wastewater bills. In the areas of contracting work to others, we have consistently done so with the objective of saving money and increasing efficiency at the Commission.

In response to your OLO questions, please be aware that a recent new directive was passed by our Commissioners on January 26 (copy enclosed) which had asked our staff to identify up to 1 percent of our total budget, approximately \$6,000,000, of new areas capable of being contracted out to others. This review is now underway and the results will be available for the FY '96 budget cycle.

Due to this late report, I have elected to provide you with a list of the major contract type activities that the Commission has included in their approved FY '94 budget. These include services by others, contract work and professional services. The total of all of the contracted out work is approximately \$194,000,000 or 35 percent of our non-salary budget and this is typical for every year.

Ms. Joan M. Pedersen
April 11, 1994
Page 2

I hope these figures will illustrate the WSSC's commitment to using and evaluating new and existing services and programs for possible contracting. If you have any questions regarding this response, you may contact me at (301) 206-7200.

Sincerely,



Wayne W. Fallin
Deputy General Manager
for Administration

WWF/tk

Enclosures

cc: Cortez A. White, General Manager
Thomas Street, Budget Director

SERVICES BY OTHERS

Information System Division to include: disaster recovery, offsite storage, \$4,879,200 PC micro contracts (time and repairs), software maintenance and support fees, hardware maintenance fees, emergency support fees, contract and temporary staffing, new and on-going system support documentation, performance monitoring/network monitoring, production systems support, project proposal development (MASTER COBOL II conversion, Project 2000, CADD).

Security Services to include: contract guard services (\$1,195,200), fire \$1,281,600 fire and security alarm monitoring at all facilities, uniforms, etc.

Contract/Technical Services to include: relocation of utilities, Bidder \$1,200,000 Outreach support services, temporary help, miscellaneous engineering and non-engineering services.

Electrical/Mechanical to include: service contracts on elevators, heating \$2,534,300 and air conditioning, switchgear, generators, infrascan, centrifuge, electrical motors, pumps, motors, transformers; equipment installation; water treatment in cooling towers; inspections; repairs of incinerators; fuel tank testing and replacement; E/M maintenance at RGH Building; grout replacement (Piscataway).

Buildings and Grounds to include: janitorial services, painting, fire \$3,992,400 extinguishers maintenance; pest control; refuse removal; office relocations; safety mats; keys; repaving/road treatment; roof replacements; window cleaning; grounds maintenance; interior building modifications; fencing replacement; waterproofing; landfill fees; overhead door maintenance; street sweeping; consolidated maintenance for RGH Building; tank repairs; plants.

<u>CONTRACT TYPE</u>	<u>FY94 APPROVED</u>	<u>DESCRIPTION</u>
Systems Rehabilitation	\$6,600,000	Cleaning and lining of water mains
Sewer Reconstruction	\$5,340,000	Relining of structurally deficient sewers
Water/Sewer House Connection Reconstruction	\$1,250,000	Reconstructing structurally deficient sewer services
Restoration contract	\$475,000	Seed and Sod
Street Repairs	\$5,200,000	Restoration of paved surfaces after repairs
Miss Utility	\$500,000	Underground facilities marking
Chemical Root Control	\$350,000	To control root growth in sewers
Pipe Repairs	\$200,000	Emergency repairs of large concrete cylinder pipe requiring a number of pieces of heavy construction equipment
Landfill Charges	\$344,000	For removal of debris from maintenance jobs
Pump, Motor & Transformer Repair Service Repair Service	\$400,000	For major repairs
Equipment Installation Service	\$700,000	For installation of new or replacement equipment by Electrical/ Mechanical or Instrumentation/Communication contractors
Electrical/Mechanical Maintenance	\$296,400	Maintenance of equipment in Richard G. Hovevar Building
Janitorial Service	\$300,000	Cleaning of Commisison facilities
Painting	\$495,000	Commission facilities on a rotating schedule
Storage Tank Painting/Repairs	\$395,000	Commission facilities on a rotating schedule
Repaving/Road Treatment	\$206,000	To repair deteriorating roads on facilities, plants, etc
Exterior structure and concrete repairs/ Roof Services	\$368,000	Includes roof replacement, resaturation, and painting of metal roofs on rotating schedule
Grounds Maintenance	\$480,000	Grass cutting, lawn maintenance, and cleanup of all locations, approximately 1,653.21 acres

<u>CONTRACT TYPE</u>	<u>FY94 APPROVED</u>	<u>DESCRIPTION</u>
Interior Building Modifications	\$300,000	Renovations to aging structures
Consolidated Maintenance Contract for the Richard G. Mocevar Building	\$765,400	Janitorial, lawn, window cleaning, general repairs
Sludge Hauling	\$2,800,000	From Blue Plains to MCRCF and landspreading
MES	\$200,000	Monitoring land application of sludge from Parkway, Seneca, Piscataway and Damascus
Dewatered Sludge Hauling	\$2,692,900	From Piscataway, Parkway, Seneca and Damascus and Western Branch
Mattawomen WWP Service Charges	\$315,000	For handling tributary WSSC flows to Charles Co.
Vehicle/Equipment Repair and Maintenance	\$899,300	For repairs and maintenance of Commission's rolling fleet
Brink Water Tank	\$375,000	Lease for privately built and operated water tank
Regional Sewage Disposal	\$41,200,000	WSSC Share of Blue Plains wastewater treatment and sludge management costs
TOTAL	\$73,447,000	

WASHINGTON SUBURBAN SANITARY COMMISSION

MINUTES

Wednesday, January 26, 1994
Laurel, Maryland

Met in the Commission hearing room at the offices of the Washington Suburban Sanitary Commission, 14501 Sweitzer Lane, Laurel, Maryland, due notice having been given to all members of the Commission.

At 1:00 p.m. the meeting was called to order with the following members being present:

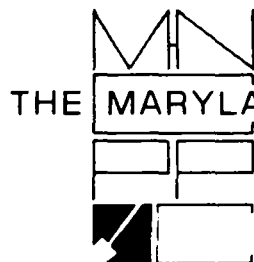
Lewis M. Helm, Chair
Robert M. Potter, Vice Chair
Henry T. Arrington
Robert G. Berger
Waymond D. Bray

Commissioner Elizabeth Buck was absent.

Commissioners' Items/Comments

Privatization Issue

Commissioner Bray made a motion to have the Internal Audit Manager perform a review of the WSSC Budget to identify, up to 1% of the total budget, approximately \$6,000,000, areas capable of being privatized with the objective being saving money and increasing efficiency. The results of this review are to be available for the FY 1996 budget cycle. The motion was seconded by Commissioner Arrington and carried unanimously.



THE MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION

8787 Georgia Avenue • Silver Spring, Maryland 20910-3760

(301) 495-4605

Montgomery County Planning Board
Office of the Chairman

March 18, 1994

TO: Joan M. Pedersen, Program Evaluator
Office of Legislative Oversight

FROM: William H. Hussmann, Chairman, Montgomery County Planning Board w

SUBJECT: Response to Request for Information dated February 8, 1994 - Implementation of the Council's Policy Directive on Contracting

This memorandum is in response to your request for preliminary information pertinent to the OLO review of processes used to implement the Council's policy directive on contracting. The departments within the Commission have been utilizing the services of outside contractors and consultants for many years in efforts to increase efficiency and hold down costs. With the adoption of Resolution 12-596, emphasis in this area has increased significantly as evidenced by the activities and accomplishments outlined in this response to your questions.

In addition, a major effort regarding contracting out was directed by the CAS Study Group. This Group is composed of representatives of both County Councils, their staff and the Chairman and Vice Chairman of the Commission. This Group, with assistance from CAS staff, reviewed the functions performed by the Central Administrative Services Departments (Department of Human Resources and Management, Finance and Legal) and identified those functions to be considered for contracting out. Attachment A provides a description of those functions along with the workyears assigned.

OLO QUESTIONS

1. FY 1994 Contracting Out List

Attachment B provides changes to the FY 1994 contracting out list compiled by OLO.

- Additions to programs to be considered for contracting out in FY 1994 by the Parks Department include trash collection in Region II and preventative maintenance of our vehicle fleet, or all maintenance of the park police fleet or a combination of these services.

- Some items have been deleted from and others have been added to the list of functions to be considered for contracting out reflecting the direction given by the CAS Study Group. As a result of the complexities of the functions, the CAS Study Group has determined that contracting out evaluations will bridge into FY 1995.
- Additions to functions currently being contracted out include public hearing transcripts, Montgomery County Map Automation and the Census Update Survey which are contracted out by the Planning Department. Also added were Supervisory Training and Employee Programs contracted out by the Department of Human Resources and Management.

2. FY 1995 Contracting Out List

The Commission's contracting out activities were presented by the Parks Department and the Planning Department in the FY 1995 Proposed Budget Document on pages 2-13, 6-73 and 6-74. The Parks Department will also be evaluating custodial services and property management functions. The CAS Departments' list of functions to be considered for contracting out were presented to the CAS Study Group in October of 1993 (Attachment A). Attachment C summarizes the FY 1995 contracting list in the OLO format. All systems related functions have been consolidated on the list as computer services.

3. Comments on Criteria

The Commission supports using the criteria identified in Resolution 12-596 to determine if functions are appropriate for contracting out. The type of program, cost and quality of service are of particular importance. In addition, during the evaluation process, it may be beneficial for staff to analyze methods used by the private sector in performing functions and studying processes. Staff should then determine if by applying these methods, the Commission could become the more cost effective provider.

4. General Statement Regarding Implementation of Directive

The departments within the Commission are implementing the Council's directive on a decentralized basis. Each department is selecting functions to evaluate for contracting out. The decision as to whether or not to contract out is based on the criteria outlined in Resolution 12-596. Below are some examples of the

Commission's efforts including programs contracted out over the past years, programs recently contracted out and programs currently in the process of being evaluated for contracting out. Detailed information on items to be considered for contracting out by the CAS Departments are provided on Attachment A.

Parks Department:

- Trash Collection - The Department of Parks has advertised for proposals from private providers to collect trash along established routes in Region II. Prior to putting out this RFP, we studied our trash collection routes and made several changes in order to make them more efficient and attractive to prospective bidders. We removed receptacles in hard-to-reach areas, combined receptacles in inconvenient pick-up areas and removed trash containers which were not used.
- Vehicle Maintenance - The Department of Parks staff has had several exploratory discussions with vendors, and has developed a draft RFP for contracting out either preventative maintenance of the vehicle fleet, the entire maintenance of the Park Police fleet or any combination proposal that a vendor wishes to offer.

Planning Department:

- Public Hearing Transcripts - The Department contracts out transcribing of public hearings for possible judicial review.
- Transitway & HOV Master Plan - Engineering services to delineate right-of-way and identify impact issues will be contracted out.
- Transportation Analysis in Support of Master Plans and AGP - Consultants will be utilized for traffic engineering and demand management forecasting.
- Potomac Environmental Study - Contracted services will be used for inventories, sampling data, water quality evaluations and a comprehensive wetlands plan with management recommendations.
- Eastern County Wetlands Evaluation - The Department will be contracting for services required for a field verified wetland plan.
- Census Update Survey - Coding services will be contracted out.

Finance Department:

- Minority/Female/Disabled Firm Certification - The Finance Department has contracted out the Minority/Female/Disabled (MFD) Certification function. The Commission continues to provide outreach to MFD firms, but relies on certifications by the Maryland Department of Transportation, Prince George's County Minority Business Opportunities Commission and the Small Business Administration (8(a) firms).
- Personnel/Payroll System Maintenance - The Finance Department has contracted out maintenance service on the new Personnel/Payroll System from the software vendor.
- Arbitrage Compliance - The Department has contracted out for services to monitor the Commission's compliance with IRS regulations concerning the investment of bond proceeds.
- Accounting Assistance - The Department contracts out for accounting services on an as needed basis.
- Special Studies - The Department has contracted out for special studies to review the Department's organizational structure and to analyze the work flow processes. Studies included: Computer Services, Cash Management, Disbursement and Accounting functions.

Department of Human Resources and Management:

- Employment Testing - The Department of Human Resources and Management uses contracting services to develop, validate, and administer entry and promotional testing for public safety personnel, eliminating the need for testing and measurement specialists on staff.
- Labor Relations - Currently the Commission has one certified labor organization and anticipates being petitioned for representation of other bargaining units. The negotiations, collective bargaining, grievance processing for represented employees, activities during organization of drives, guidance and advice on the labor/employee relations matters are contracted to a labor specialist/counsel.

- Employee Assistance Program - This program has been contracted out since 1982. The contractor provides confidential intervention, short term counselling, and referral services for employees as well as consultation for supervisors in the proper handling of troubled employees.
- Fair Practices, Training and Mediations - The services of outside experts are used in the areas of complaint processing, training and activities on subjects such as sexual harassment or sensitivity awareness.
- Supervisory Training - A core training program in supervisory skills for managers and supervisors at all levels of the agency responds to the mandate of M-NCPPC management to implement such programs. This training assures requisite skills are transmitted along with a focus toward today's enlightened thinking calling for managers/supervisors to interact as partners who provide the levels of direction and support each employee's needs to achieve his/her maximum effectiveness. Training is done by consultants/contractors.
- Employee Programs - The Department utilizes contracting services for medical and psychological evaluations, testing for promotion and child care referral.

Legal Department:

- Outside Counsel - The Commissions currently contracts for many legal services including: insurance defense, engineering/construction matters, real estate matters, certain labor relations matters and certain EEO/discrimination matters.
- Although the CAS Study Group did not recommend contracting out any additional functions, the Legal Department is open to future opportunities for contracting out.

5. Policies, Guidelines and Directives from Top Administrators

As indicated above, the contracting out program is decentralized within the Commission. The policies, guidelines and directives of the County Council have been distributed to the Department Directors for implementation. In addition, direction has been given to the CAS departments by the Chairman and Vice Chairman as members of the CAS Study Group.

6. FY 1994 and FY 1995 Contracting Lists

The Parks Department and the Planning Department described their contracting out plans in the FY 1994 Proposed Budget (pages 3 and 6-5) and FY 1995 Proposed Budget (pages 2-13, 6-73 and 6-74). The CAS Departments provided information regarding contracting activities for FY 1994 in a memo to Councilman Hanna as Chairman of the PHED Committee. These plans were superseded by the FY 1995 memo to the CAS Study Group of which Councilman Subin and Steve Farber are members. Specific time schedules were not prepared, but the goal is to complete analyses in FY 1994 and FY 1995.

7. New Programs and Expanded Programs

The Commission did not propose any new or expanded programs in FY 1994. In FY 1995, the Montgomery Parks Department was required by State law to establish a storm water maintenance program. The Department determined that this program could not be contracted out for two reasons. First, there were no known providers of this service. Second, management wanted to retain tight control of this function to assure compliance with legal requirements.

8. FY 1994 & FY 1995 Contracting Lists

As indicated above, the Commission provided information on contracting activities in the Proposed Budgets and in separate memorandums to the PHED Committee and the CAS Study Group.

I hope the information provided is useful. The Commission shares the Council's goal of achieving optimum cost effectiveness while continually improving service delivery. Our commitment to the contracting out directive is strong, believing that a key to cost containment is competition. Whether the contracting out evaluations result in contracting for services or in improving the work methods currently in place, the results will be positive, a reduced cost to the taxpayer.

If you have any questions regarding the response, the Commission's contact person is Patricia Colihan, Finance Manager. She can be reached at 454-1540.

Attachments

cc: John W. Rhoads, Chairman, M-NCPPC
LeRoy J. Hedgepeth, Executive Director
A. Edward Navarre, Secretary-Treasurer
Ronald D. Schiff, General Counsel
Robert W. Marriott, Planning Director
Donald K. Cochran, Parks Director

M-NCPPC CAS STUDY - CONTRACTING OUT
DESCRIPTIONS OF FUNCTIONS TO BE STUDIED

(Compiled by OLO from Attachment A of 3/18/94, Memo Submitted by M-NCPPC)

Department of Human Resources

Corporate/Administrative Management - Records Management & Archives -	2.03 WYs
Liability (Risk) Management - - - - -	1.92 WYs
Employee Services & Development - Employee Programs - - - - -	1.61 WYs
Training - - - - -	1.03 WYs
Fair Practices, Employment & Placement -	
Recruitment, Employment Processing & Testing - - - - -	4.22 WYs

Human Resources Information Systems & Employee Communications

Computer Services & Training- - - - -	1.96 WYs
Systems Analysis & Development - - - - -	.98 WY

Finance Department

Computer Operations - - - - -	3.00 WYs
Financial Systems/Human Resources Applications - - - - -	5.40 WYs
Internal Audits - - - - -	4.70 WYs
Systems Management/Communications - - - - -	3.45 WYs
User Systems - - - - -	3.10 WYs

898/4

III. The Maryland-National Capital Park and Planning Commission

A. Areas to be considered for contracting out in FY 1994:

- Minority/Female/Disabled Certification Program
- Personnel Payroll System Maintenance
- **Trash Collection**
- **Preventative Maintenance of Vehicle Fleet &/or Entire Maintenance of Park Police Fleet**

The following adjustments are a result of the CAS Study. These items are scheduled to be reviewed during FY 1994 & FY 1995.

- Records Management & Archives
- Liability (Risk) Management
- Employee Programs
- Training
- Recruitment, Employment Processing & Testing
- Document Production
- Commission-wide Computer Services
- Internal Audits

B. Areas previously considered for contracting out and rejected:

- Payroll Processing
- Bank Reconciliations

C. Currently Contracted Out:

- Employment Testing
- Labor Relations
- Employee Assistance Program
- Fair Practices, Training and Mediations
- **Supervisory Training**
- **Employee Programs**
- Outside Counsel
- Arbitrage Compliance
- Accounting Assistance
- **Special Studies**
- **Public Hearing Transcripts**
- **Montgomery County Map Automation**
- **Census Update Survey**

Note: Changes are in bold.

III. The Maryland-National Capital Park and Planning Commission

A. Areas to be considered for contracting out in FY 1995:

- Custodial Services
- Property Management Services
- Records Management & Archives
- Liability (Risk) Management
- Employee Programs
- Training
- Recruitment, Employment Processing & Testing
- Document Production
- Commission-wide Computer Services
- Internal Audits

B. Areas to be Contracted Out in FY 1995

- Eastern County Wetland Evaluation
- Potomac Environmental Study

(Note the Commission will continue contracting out functions on the FY 1994 list.)

