CONTRACTING OUT

Implementation of the Contracting Out Provision of the Personnel System Reform Act of 2002

Senate Ways & Means Committee             February 11, 2003
Contracting Out in Washington

Current Law (until July 1, 2005):

- State agencies cannot contract for services if the contract would have the effect of terminating classified employee positions.
Contracting Out in Washington

New Law (effective July 1, 2005)

Agencies may contract for services IF:

1) The agency determines savings will result;
2) Measurable performance standards are established;
3) Employees may offer alternatives or bid for the work;
4) The contractor must consider hiring state employees;
5) Contract monitoring process is established.
Contracting Out in Washington

New Law (effective July 1, 2005):

The new contracting procedures do not apply to:

1) Contracts authorized prior to July 1, 2005;
2) Contracts between public entities; and
3) Contracts expressly authorized by the Legislature.
“Privatization” Methods

- Service Shedding
- Franchise
- Vouchers
- Subsidy
- Asset Sale or Lease
- Deregulation
- Contracting Out
Historical Nominees

Liquor Control Board
  • Liquor Sales/Distribution

General Administration
  • Custodial Services
  • Buildings & Grounds Maintenance
  • Motor Pool/Parking Management
  • Facilities Management
  • Real Estate Services/Architectural
  • Surplus
Historical Nominees

Department of Social & Health Services

- Eligibility Determination
- Child Support Collection
- Family Reconciliation Services
- Claims Processing
- Laundry Services
Historical Nominees

Department of Corrections
  • *Correctional Facilities*

State Parks & Recreation
  • *Parks*
  • *Campgrounds*
  • *Docks*

Department of Information Services
  • *Information Technology Support Services*
Criteria Used to Choose Candidates for Contracting Out

- Is there a competitive market place?
- Has function been successfully privatized elsewhere?
- Are objective standards available?
- Can performance be measured/monitored?
- Are there default contingencies?
- Can impacts on current employees be mitigated?
Making Contracting Out Successful

1. Make bidding and selection process competitive and open.
2. Design effective contracts/RFPs.
3. Provide adequate monitoring and oversight.
4. Consider incentives to encourage active use of contracting.
5. Address labor concerns.
What are the Fiscal Considerations of Contracting Out?

- The Price Difference
- “Scalability”
- Disposal of Existing Assets
- Liability
What Contributes to the Price Difference?

- Competition keeps prices low and quality high.
- Neither a private or public monopoly benefits from Price competition
- A vendor with an exclusive contract that is difficult to re-bid, with significant start up costs for potential competitors has a significant advantage for pushing price up.
- A large purchaser in a competitive market place without significant costs in shifting from one vendor to another has significant advantage for pushing price down.
Example 1: DSHS Laundry Services

- DSHS has six major laundry facilities in mental health, developmental disabilities & juvenile rehabilitation institutions.
- The six laundries process 8.6 million pounds per year at an operating cost of $4.4 million and 70 FTEs.
- The facilities are generally “fully depreciated” or obsolete, with some unable to find replacement parts.
Example 1: DSHS Laundry Services
Example 2: **GA Custodial Services**

- The Department of General Administration provides custodial services for 24 buildings involving over 2 million square feet.
- They provide a base custodial service for cleaning public spaces, and clean office spaces according to agency-specific contracts.
Example 2: GA Custodial Services

Annual Cost per Sq. Foot

- National Average
- W/ Est West Coast Premium
- WA Base Custodial Svcs
- WA Base + Offices (L&I)