

In sourcing often leads to better service and cost-savings

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Cities and states nationwide are finding out that the “promises” of privatization often fail to materialize once a contract is signed. When cost savings aren’t realized or service quality declines, many governments have been increasingly looking at “insourcing,” “reverse privatization,” or “remunicipalization”—that is, bringing a service or asset back under public, democratic control.

Recent research and the experiences of numerous local and state governments show that, by bringing critical functions back under public control, service quality can be improved and cost-savings can be achieved to make the best use of public money.

What the research shows

The most common reason for insourcing is inadequate service quality, followed by inadequate cost savings.

In 2012 survey data from the International City/County Management Association, researchers examined why city managers decided to bring previously privatized services back in-house. The top reasons were problems with service quality and lack of cost savings when the service was privatized. Of respondents who had insourced services, 53 percent cited the reason as insufficient cost savings, while 51 percent cited unsatisfactory service quality.¹

Insourcing is a viable and popular option.

From 2002 to 2007, the rates of outsourcing and insourcing among local governments were about equal. Eleven percent of municipalities surveyed contracted out services previously performed by city employees, while 12 percent took contracted functions back in-house.² Insourcing has since gained traction in many sectors, including water, with a number of localities bringing water provision back in-house. For example, in 2018, localities that insourced their water systems included Putnam, Connecticut,³ Dallas, Oregon,⁴ and Saltville, Virginia.⁵

Insourcing creates good jobs, while saving money.

A 2011 study by the Project on Government Oversight showed that the federal government pays almost twice as much for contracted services than what it would

cost if public workers performed the same job, even when accounting for the long-term employee benefits of federal workers. The study found that even though many public employees are paid higher salaries and receive better benefits than contractor employees, the lower compensation of the contracted employee was more than offset by the overhead, executive compensation, and profits that the contracted corporation charged the government.⁶ By bringing contracted functions back in-house, the government is often able to create good family-supporting jobs, while saving valuable public funds. For example, when the Department of Homeland Security (DHS) insourced 200 previously contracted technology jobs, the agency was able to save \$27 million that year, not by lowering employee pay, but by removing the fees that they had to pay the private contractor.⁷

What experience shows

Insourcing saves money.

- Localities have insourced routine city services to save money. For example, in 2018, Fort Wayne, Indiana, ended its contract with a private contractor for fleet management services, from snow plow trucks to water and sewer maintenance trucks, to road paving equipment, and police and fire vehicles. By bringing these services in-house, the city expects to save \$350,000 per year and improve service quality.⁸
- In recent years, several “contract” cities have ended their experiments with large-scale privatization of local government functions. In these cities, many day-to-day municipal services, such as garbage collection, park maintenance, and human resources, are provided by private companies. These privatization experiments have been short-lived as cities have realized that they could actually save money by bringing these functions in-house. In 2010, after three years of privatization, Milton, Georgia, insourced many municipal services. The city manager explained that rebuilding its public workforce would translate into a savings of at least \$1 million per year.⁹ More recently, in May 2019, Sandy Springs, Georgia, decided to insource many of the operations of various privatized departments including Public Works, IT, Finance, Economic Development, Communications, Facilities, Performing Arts Center Operations, Municipal Court operations, and Recreation and Parks. As Sandy Springs Mayor Rusty Paul explained, “In this recompet[e] [of rebidding the contracts], the gap between private sector prices and in-house costs for these services was such we cannot justify the difference.”¹⁰
- In January 2017, the City of Indianapolis Department of Public Utilities insourced operations at two wastewater treatment plants that were run by Suez Water Indiana.¹¹ The department calculated that insourcing this service would save over \$4 million,¹² and allow them to “take a more holistic approach to managing the utility and help control costs in the future.”¹³

- In 2015, New York City underwent a large insourcing effort to bring information technology services back in-house. As the first deputy mayor in charge of the effort explained, the project would “use city employees for IT work where it will achieve financial savings and improve service delivery, by reducing reliance on external IT consultants.” The city calculated that insourcing would save \$3.6 million the first year and could rise to as much as \$100 million in savings over a five-year period. The Department of Health and Mental Hygiene alone expected to save \$26 million through the insourcing effort. Instead of using contracted IT consultants, the city created an in-house team of highly-skilled IT technicians to help each agency with technology issues, since the city found that “technology is really a core function for us.”¹⁴

Insourcing improves the quality of public services and assets.

- In 2018, the Michigan Department of Corrections brought back prison food services after outsourcing the services first to Aramark Correctional Services and then Trinity Services Group under multimillion-dollar contracts. Both contractors had serious problems including repeated findings of maggots in food, kitchen workers arrested for smuggling drugs, and workers having sex with prisoners. In less than a year after insourcing food service, the Department of Corrections has reported a significant increase in service quality—kitchens are much cleaner and more fully staffed and meals are much more likely to be served on time. The department has also experienced dramatically lower staff turnover, which was a major problem for both contractors.¹⁵
- In 2010, Evansville, Indiana, ended its long-term water and sewer privatization contract with American Water. Under private control, the quality of the city’s water and sewer system significantly declined, as the private company was slow to repair broken meters, and untreated sewage leaked into a nearby river, prompting a lawsuit from the Environment Protection Agency. The city estimated that ending the privatization of its water system would save the city \$14 million over a five-year period. Instead of a private company profiting from the system, the city would reinvest the savings, helping to prevent steep rate increases for residents.¹⁶ Because the city doesn’t have to answer to shareholders, unlike American Water, and now has greater control over the system’s budget and employees, officials can save money and improve service quality.
- Denver, Colorado’s large rail project was procured as a public-private partnership (P3). This means that the private contractor, Denver Transit Partners, was responsible for not only designing and building the rail lines but also operating and maintaining them. However, the A, B, and G Lines, together known as the EAGLE Project, have been plagued by delays, dramatic breakdowns, lawsuits, and operational issues that have put passengers at risk. While Denver Transit Partners was supposed to operate the newest commuter rail line, the N Line, in 2019, Denver’s transit agency decided that the line will be operated in-house by agency staff.¹⁷ Denver’s transit agency believes that in-house provision will

provide better quality service and prevent unforeseen ballooning costs, which have previously plagued this project.¹⁸

Insourcing takes advantage of the unique knowledge and know-how of the public sector workforce.

- In 2018, the Kansas Department of Revenue laid off dozens of employees under a \$53 million no-bid contract to outsource information technology work. The very next year, the state cancelled its contract with CGI Technologies and decided to insource the work. The corporation had not met key deadlines in the development of a new tax collection system promised under its contract, forcing the state to use the old system to process tax returns. The agency is currently seeking to fill about 56 jobs that were eliminated when the technology work was contracted out. As Kansas Revenue Secretary Mark Burghart explained, the state is encouraging the formerly laid off state employees to apply for the positions “because they are experienced professionals and they know the system...It would be very beneficial to the state to have them back.” Former and current employees agree that outsourcing had deprived the agency of workers with institutional knowledge.¹⁹
- In 2012, the Tennessee Department of Children’s Services ended a contract with a private entity that provided training to the agency’s social workers. The agency brought the training function back in-house and added 30 permanent trainer positions. The agency estimated that the insourcing move will save several million dollars. Furthermore, the agency will be able to maximize the skill set and knowledge that its most experienced social workers possess by promoting them into the trainer positions and allowing them to pass their unique skills onto more junior social workers.²⁰

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Endnotes

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