

BACKGROUND BRIEF • MAY 2013

Insourcing

Cities and states across the country are finding out that the “promises” of privatization often fail to materialize once the contract is signed.

When cost savings aren't realized or service quality declines, many governmental entities are turning to reverse privatization, or “insourcing,” to bring contracted functions back in-house. Insourcing enables cities and states to reassert public control over public services and assets. Recent research and the experience of numerous local and state governments show that by bringing critical functions back into the public realm, we can improve the quality of our public services, while achieving cost-savings to make the best use of taxpayer dollars.

AT A GLANCE

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What Research Shows

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

Using 2002 and 2007 survey data from the International City/County Management Association, researchers examined why city managers decided to bring previously privatized services back in-house. In both years, the top reasons were

problems with service quality and lack of cost savings when the service was privatized.¹ Of the local governments that insourced services, 61% said that the reason was a decline in service quality, while 52% said that there were insufficient cost savings.² The researcher concluded that citizens prefer local services to be locally controlled and publicly delivered.³

Insourcing is a viable and popular option.

Research shows that from 2002 to 2007, the rates of outsourcing and insourcing among local governments were about equal. 11% of municipalities surveyed contracted out services previously performed by city employees, while 12% took contracted functions back in-house.⁴ Insourcing has also gained traction in the federal government, as agencies including the Internal Revenue Service, U.S. Army, Department of Homeland Security, and Department of Defense are increasingly bringing contractor jobs back to the public sector to successfully save money and reduce debt.⁵

Insourcing creates good jobs, while saving money.

A recent study by the Project on Government Oversight showed that the federal government pays almost twice 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 contractor employee was more than offset by the overhead, executive compensation, and profits that the contractor company 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 taxpayer funds. For example, when the Department of Homeland Security insourced 200 previously contracted technology jobs, the agency was able to save \$27 million that year not by lowering employee pay, but by cutting out the fees that they had to pay the private contractor.⁷

What Experience Shows

Insourcing saves money

- In 2011, the Kent City Community School District ended its contract with Chartwells School Dining Services and brought cafeteria service back in-house. Insourcing allowed the district to save money by cutting out the fees that the private contractor charged the district. The district reports that it will break even or possibly make a profit this school

¹ Mildred Warner and Amir Hefetz, "Insourcing and Outsourcing," *Journal of the American Planning Association*, September 13, 2012.

² <http://www.nytimes.com/roomfordebate/2011/04/03/is-privatization-a-bad-deal-for-cities-and-states/the-pendulum-swings-again>

³ Ibid.

⁴ Mildred Warner and Amir Hefetz, "Insourcing and Outsourcing," *Journal of the American Planning Association*, September 13, 2012.

⁵ Center for American Progress, "Insourcing: How Bringing Back Essential Federal Jobs Can Save Taxpayer Dollars and Improve Services," March 2012. <http://www.americanprogress.org/wp-content/uploads/issues/2012/03/pdf/insourcing.pdf>

⁶ Project on Government Oversight, "Bad Business: Billions of Taxpayer Dollars Wasted on Hiring Contractors," September 2011. <http://www.pogo.org/our-work/reports/2011/co-gp-20110913.html>

⁷ Center for American Progress, "Insourcing: How Bringing Back Essential Federal Jobs Can Save Taxpayer Dollars and Improve Services," March 2012. <http://www.americanprogress.org/wp-content/uploads/issues/2012/03/pdf/insourcing.pdf>

year, using the same number of employees and without increasing the cost of any meals. Part of the savings is a result of the district having increased control and meal purchasing flexibility that the private contractor could not provide. The superintendent of the district stated that the remainder of the savings comes from taking contractor fees out of the equation - "When you take the for-profit motive out, that's probably 80 percent of where savings come from."⁸

- Prompted by a 2003 lawsuit over the horrific conditions of the state's prison health care system, Ohio has taken steps to improve the provision of medical services, mainly by insourcing the physicians who take care of inmates. By ending its contracts and bringing medical services back in-house three years ago, the state has saved millions of dollars. The state saved \$7.2 million in prison prescriptions alone, largely because inmates now see the same medical staff at each visit.⁹ This enables doctors and patients to develop an on-going relationship allowing the medical staff to determine and treat the root causes of problems, instead of simply medicating the symptoms, as had been the practice of contractors. Insourcing has allowed Ohio to significantly increase the quality of medical care in its facilities, as public physicians are able to provide continuity of care, while affording the state significant cost-savings.
- In recent years, several "contract" cities have ended their experiments with large-scale privatization of local government functions. Typically in these arrangements, a city will provide a large lump sum to a company, like CH2M Hill, a large construction and operations firm, to run almost every day-to-day municipal government function, such as garbage collection, park maintenance, and human resources. However, these privatization experiments have been short-lived as cities realize that they could actually save money by bringing these functions in-house. After three years of privatization, Milton, Georgia brought many municipal services back in-house. The city manager explained that rebuilding its public workforce would translate into a savings of at least \$1 million per year.¹⁰ Other cities in Georgia, including Johns Creek, Chattahoochee Hills, and Sandy Springs also decided to significantly roll-back their contracts with CH2m Hill.¹¹ These cities noted that with declining tax revenues, they could no longer afford the privatized services.¹²

Insourcing improves the quality of public services and assets.

- 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 will save the city \$14 million over a 5-year period. Instead of a private

⁸ <http://www.edweek.org/ew/articles/2013/04/24/29ii-privatize.h32.html?tkn=OPSFd7Mr72z%2BihIBHeQy9Gzf2AjE5k73eID&cmp=ENL-EU-NEWS1&intc=EW-ll413-ENL>

⁹ <http://thinkprogress.org/health/2012/10/15/1011731/ohio-saves-72-million-in-prison-prescriptions-after-in-sourcing-health-care/?mobile=nc>

¹⁰ <http://www.ajc.com/news/news/local/milton-ends-privatization-experiment/nQbWK/>

¹¹ <http://www.bizjournals.com/atlanta/print-edition/2011/05/27/new-cities-abandoning-one-stop.html?page=all>

¹² Ibid.

company making a profit off the system, the city will reinvest the savings in the water and sewer systems, helping to prevent steep rate increases for residents.¹³ Because the city doesn't have to answer to shareholders, unlike its previous contractor, and now has greater control over the public budget and water system employees, city officials will be able to save money, improve the quality of the system, and prevent costly rate hikes.

- Hernando County in Florida recently took over its jail from private prison operator, Corrections Corporation of America (CCA). During the course of the county's contract with CCA, the jail seriously deteriorated, as the company failed to fulfill the facility maintenance requirements in its contract. The contractor also engaged in practices that compromised safety and increased the chance of inmate escapes and incidents of violence. After the county took back jail operations, the Sheriff's Office conducted extensive interviews to ensure that all prison employees were well trained and met all standards. Many of the employees previously working for CCA failed to pass background checks. It also took major steps to improve the security of the facility, upgrade important technological systems, and bring some medical functions back in-house to improve inmate health care. The county is currently in the process of upgrading the damaged buildings. Since insourcing operations, the county has been able to significantly improve the quality of the Hernando County Detention Center, while running it more cost-efficiently than CCA. In the first year of public control, the county saved \$1 million.¹⁴

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

- In 2011, New York City insourced much of its technology work, shifting important IT projects from outside contractors and consultants to city staff. The city's Department of Information Technology and Communications was able to take 40 separate data server rooms and consolidate them into one centralized data center. The Deputy Mayor, Stephen Goldsmith, once considered a vocal privatization proponent, credited the careful supervision and extensive know-how of the city staff to successfully oversee the project and complete it in six months record time. Using the agency's talented public workforce saved the city \$25 million in addition to the \$100 million that the actual project saved by consolidating server rooms.¹⁵ New York City has insourced several other important projects in several departments, including its business permitting and 311 online programs, with very successful results and enormous cost savings.¹⁶
- 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

¹³ <http://www.courierpress.com/news/2010/jan/08/city-ending-privatization-sewer-water-systems/>

¹⁴ <http://www.tampabay.com/news/localgovernment/hernando-countys-takeover-of-jail-brings-year-of-sweeping-changes/1188387>

¹⁵ <http://www.nydailynews.com/opinion/tighten-belts-insource-deputy-mayor-stephen-goldsmith-city-workers-article-1.118674?print>

¹⁶ Ibid.

social workers possess by promoting them into the trainer positions and allowing them to pass their unique skills onto more junior social workers.¹⁷

¹⁷ <http://wpln.org/?p=38628>

Appendix

Below are web links to additional insourcing examples.

1. February 10, 2003: Atlanta, Georgia – Water system
<http://www.nytimes.com/2003/02/10/us/as-cities-move-to-privatize-water-atlanta-steps-back.html>
2. March 8, 2009: Charlotte, North Carolina – Solid waste system
http://docs.newsbank.com/s/InfoWeb/aggdocs/AWNB/126D56968187FF90/0FA5ADE2800A15A8?p_multi=CHOB&s_lang=en-US
3. 2010: National – 16,775 positions across 24 areas of the Dept. of Defense including the Depts. of the Army, Navy, and Air Force
<http://pogoarchives.org/m/ns/fy2010-insourcing-report-iaw-sec-323-of-fy2011-ndaa-20110902.pdf>
4. 2010: San Diego, California – Community college district information technology management
<http://www.utsandiego.com/news/2012/Jul/25/city-workers-both-win-with-open-competition/all/>
5. January 8, 2010: Evansville, Indiana – Sewer and water systems
<http://www.courierpress.com/news/2010/jan/08/city-ending-privatization-sewer-water-systems/>
6. January 2010: San Diego, California – School bus services
<http://www.utsandiego.com/news/2012/Jul/25/city-workers-both-win-with-open-competition/all/>
7. January 2010: Milton, Georgia – City services, contract city
<http://www.ajc.com/news/news/local/milton-ends-privatization-experiment/nQbWK/>
8. January 3, 2011: Los Angeles, California – Golf cart rentals at municipal courses
http://www.dailybreeze.com/news/cj_17001194
9. March 24, 2011: New York City – Information Technology services
http://www.nytimes.com/2011/03/28/nyregion/28citytime.html?_r=4&ref=nyregion&pagewanted=print
10. May 17, 2011: Springfield, Massachusetts – School custodial services
<http://www.sps.springfield.ma.us/schoolCommittee/content/Minutes/2011/May%2017%202011%20Minutes%20of%20Special%20Meeting.pdf>
11. August 27, 2011: Hernando County, Florida – Jail
<http://www.tampabay.com/news/localgovernment/hernando-countys-takeover-of-jail-brings-year-of-sweeping-changes/1188387>
12. September 30, 2011: Phoenix, Arizona – Solid waste system
http://articles.chicagotribune.com/2011-09-30/news/ct-met-managed-competition-other-cities-20110930_1_city-employees-public-workers-competition

13. November 2011: Hillsboro, Oregon – School custodial services
http://www.aft.org/pdfs/psrpreporter/rep_novdec11.pdf
14. April 18, 2012: Knoxville, Tennessee – University custodial services
<http://www.knoxnews.com/news/2012/apr/18/ut-bringing-custodians-in-house-to-implement-at/?print=1>
15. June 25, 2013: Tennessee – Department of Child Services
<http://nashvillepublicradio.org/blog/2012/06/25/dcs-trims-outsourcing-costs-resulting-in-45-layoffs/>
16. October 15, 2012: Ohio – Prison healthcare
<http://thinkprogress.org/health/2012/10/15/1011731/ohio-saves-72-million-in-prison-prescriptions-after-in-sourcing-health-care/?mobile=nc>
17. October 24, 2012: Adams County, Colorado – Information Technology
<http://www.thebrightonblade.com/content/it-insourcing-save-county-800000>
18. October 30, 2012: New Albany, Indiana – Sewer system
<http://newsandtribune.com/local/x253526985/New-Albany-will-end-sewer-privatization>
19. March 27, 2013: Newark, New Jersey – Water system
http://www.nj.com/news/index.ssf/2013/03/embattled_newark_agency_dissol.html
20. March 28, 2013: Florida – Water and sewer systems
<http://www.bizjournals.com/orlando/news/2013/03/28/florida-governmental-utility-authority.html>
21. April 2, 2013: Chatham, Georgia – City buses
<http://savannahnow.com/news/2013-04-02/chatham-transit-ends-public-private-partnership#.UYqpd7Xvvve>
22. April 22, 2013: Grand Rapids, Michigan – School food services
<http://www.edweek.org/ew/articles/2013/04/24/29ii-privatize.h32.html?tkn=OPSFd7Mr72z%2BihIBHeQy9Gzf2AjE5lk73eID&cmp=ENL-EU-NEWS1&intc=EW-II413-ENL>