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Contracting Out Services  
in Philadelphia

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## Executive Summary

Proponents of privatization of public services see it as a panacea for solving the financial woes facing local governments, while critics see privatization as a false illusion, promising much and delivering little. This Pennsylvania Economy League report on contracting out in Philadelphia should be a useful tool for the City, given the current environment of severe fiscal problems which is forcing it to choose from a variety of difficult choices.

The study is limited to contracting out services; it does not deal with the sale of city property, nor does it cover private management of public facilities.

The study found that:

**Contracting out is widespread: other local governments successfully reduce costs by contracting out a broad range of functions, some of which are handled primarily by city employees in Philadelphia.**

Examples of contracting out are found for practically any local government function other than police. Most common are: solid waste collection, vehicle towing and storage and building/grounds maintenance. According to a 1987 nationwide survey, the median cost savings reported were in the range of 10 percent to 19 percent. The most positive results occur among labor intensive services.

**PEL models indicate that the City could realize cost reductions by increasing its use of contracting out.**

The potential is highest for services in which the City's pay scales are higher than those of the private sector. However, cost savings potential exists even if city pay scales are the same or lower than the private sector.

In the models, the highest projected percentage cost reductions range to almost 27% in custodial services-- a field where city pay scales exceed the private sector and 15% for waste collection. Potentially lower costs were estimated for two services with skilled trades jobs where private pay rates exceeded city rates; 7 percent for building services and 5 percent for automotive services.

Competition with contracted services has improved productivity of city employees in two cities.

In Phoenix, Arizona, and Newark, New Jersey, contracting out part of a service has spurred the public sector to greatly improve its efficiency. The Phoenix public works department has decreased its costs for refuse collection to the extent that the city has won recent bids and replaced private collection. In Newark, the cost for the services that the city provides has been reduced substantially.

The following factors appear to be instrumental in determining the potential success of contracting out:

Clearly defined conditions and expectations of contract performance.

Accurate specifications of production output expectations and measures.

Contract size which attracts firms that can benefit from economies of scale, but not so large that smaller firms cannot compete.

Contracting out only part of the service area, to provide public-private competition.

The City's high costs for employee benefits as compared to those paid by private industry is a major factor in favor of expanding the city's contracting out.

In PEL models for comparing costs of city v. contracted operations, the most significant contributing factor to the estimated cost reductions is the lower private costs for pension, health and other benefits which supplement pay.

Additionally, the City's high percent (20 percent for District Council 33) of pay for time not worked as compared to the average in private industry (9.5 percent) lends support to the assumption that private firms could perform the services with fewer personnel. The City's costs exceeds the private sector's for the other bargaining units as well.

## Recommendations

1. The City should engage in a systematic review of all activities with the potential for increasing contracting out, with emphasis on activities in which the City's salary scales are higher than, or comparable to those paid by the private sector.

The analysis should include the following activities among others:

Art Museum--guard services.  
Philadelphia Nursing Home--all services.  
Riverview Home--all services.  
Street Department--waste collection.  
Fairmount Park--grounds maintenance and landscaping.  
Recreation Department--grounds maintenance.  
Custodial Services--various departments.  
Philadelphia Computing Center--all services.

2. The City's current collective bargaining agreement with non-uniformed employees stipulates no layoffs until July 1992. Philadelphia should begin the planning and development activities usually associated with a successful contracting out policy. Activities should include:

a) Establishing specific and clearly defined conditions and expectations of contract performance.

b) Developing accurate specifications of production expectations and measures.

c) Design of a management audit system to more fully evaluate the effectiveness of service delivery performance. This program should apply to current as well as future contracts.

3. Where practical, the city should seek bids only for some segments of each of the major services to be contracted.

The bid prices would then provide a standard of comparison for public performance in the non-bid segments. Also, the city would be protected in case the bidder would fail to produce.

In both Phoenix, Arizona and Newark, New Jersey, portions of the solid waste collection services were contracted out to private firms while the public sector was responsible for other segments. In both cases, the City workers' productivity improved considerably.

4. The City should also enter into the bidding process for major services, and should establish a special board to evaluate the public bid to ensure that all costs are included.

Phoenix provides an example of the city departments bidding against the private sector. To make sure that the deck is not stacked against the private firm, Phoenix has established a board to evaluate the public bid, particularly to make sure that it includes all indirect costs which may not be included in the budget of the department providing the service.

5. Interaction between the City and its contractors should be an integral component of any contracting out process entered into by Philadelphia.

The literature strongly documents that continuous interaction between governmental agencies and contractors substantially enhances the process of successful implementation.

## Introduction

This study, made possible by the generous aid of the Thomas Skelton Harrison Foundation, reviews and evaluates contracting out from a number of different perspectives. First, the report examines the virtues and pitfalls of service privatization by providing both theories behind successful contracting and presenting specific examples.

The report contains information regarding the prevalence of contracting out throughout the nation as well as the City's experiences over the past ten years. The study also identifies issues which are applicable to Philadelphia's unique service delivery structure. Through an analysis of the total expenditures of various departments, together with comparisons of the estimated costs of equivalent service delivery from the private sector, the study projects the potential impact under different scenarios, should the City contract out additional services.

It should be noted that the City's current four year collective bargaining agreements with its non-uniformed employees limit its authority to contract out services. First, the agreements with AFSCME, District Councils 33 and 47, stipulate that no layoffs be made from July 1990 to June 1992. Additionally the contract with Local 33 states

the City shall not contract out work presently performed by employees within the unit represented by District Council 33, unless it has determined that it is more economical for the City to contract out to a Union contractor, rather than to have the work performed by the employees within the unit.

In addition to the survey findings, the report sets forth a number of recommendations, including suggestions for successful contracting. In these times of fiscal crisis in Philadelphia, it is the hope of PEL that this study will help further the efforts of the City to balance its finances.

## Chapter I Contracting Out-Pro and Con

### A. What Is Contracting Out?

Contracting out is a process by which governments pay private companies or nonprofit agencies to deliver specific services. It is one component of the broader term "privatization." Other elements include private operation of facilities, and the sale of government property to the private sector.

Privatization is not a new phenomenon; for many years governments have relied on outside agents to provide specific services. However, in recent years the term "privatization" has become popular with policy-makers and planners. There is a national Privatization Council, President Reagan appointed a Commission on Privatization<sup>1</sup> and there is extensive, growing literature on the subject.

In this PEL report, only the form of privatization known as contracting out is investigated in detail, although some attention is given to privatization of facilities for service delivery by the private sector.

### B. Prevalence of Contracting Out and Privatization

A 1987 survey gives an indication of the prevalence of contracting out among the nation's cities and counties. The survey is a product of a joint effort by Deloitte & Touche, the International City Management Association, and the Privatization Council. Their study is based on questionnaires sent to all U.S. cities with populations of more than 5,000 and to all U.S. counties with populations of more than 25,000.<sup>2</sup>

Of the 5,718 governments surveyed, 1,086 responded (19 percent), while for the 91 cities and counties with more than 500,000 people, 11 responded (12 percent). Nearly 80 percent (844) of all the respondents reported that they had used some form of privatization, with most uses of privatization including contracting out. The questionnaire's low overall response rate limits the ability

<sup>1</sup> *The President's Commission on Privatization, "Privatization: Toward More Effective Government"* (Washington: 1988).

<sup>2</sup> Irwin T. David, "Privatization in America," *Municipal Yearbook*, v. 55 (Washington, D.C.: International City Management Association, 1988), pp. 43-55.



of researchers to draw definitive conclusions as to the prevalence of contracting out in the nation.

Consequently, the nation-wide survey is more useful as an indication of the experience of contracting governments than as a precise measure of the prevalence of contracting out.

The survey respondents were asked to indicate whether or not they contracted out 18 services. Figure 1 shows the percentage of the jurisdictions that contracted out for each service during a five-year period (1982 to 1987). A jurisdiction was recorded as contracting out a service if it did so in whole or only in part. The entries relate only to those jurisdictions that reported contracting out any service.

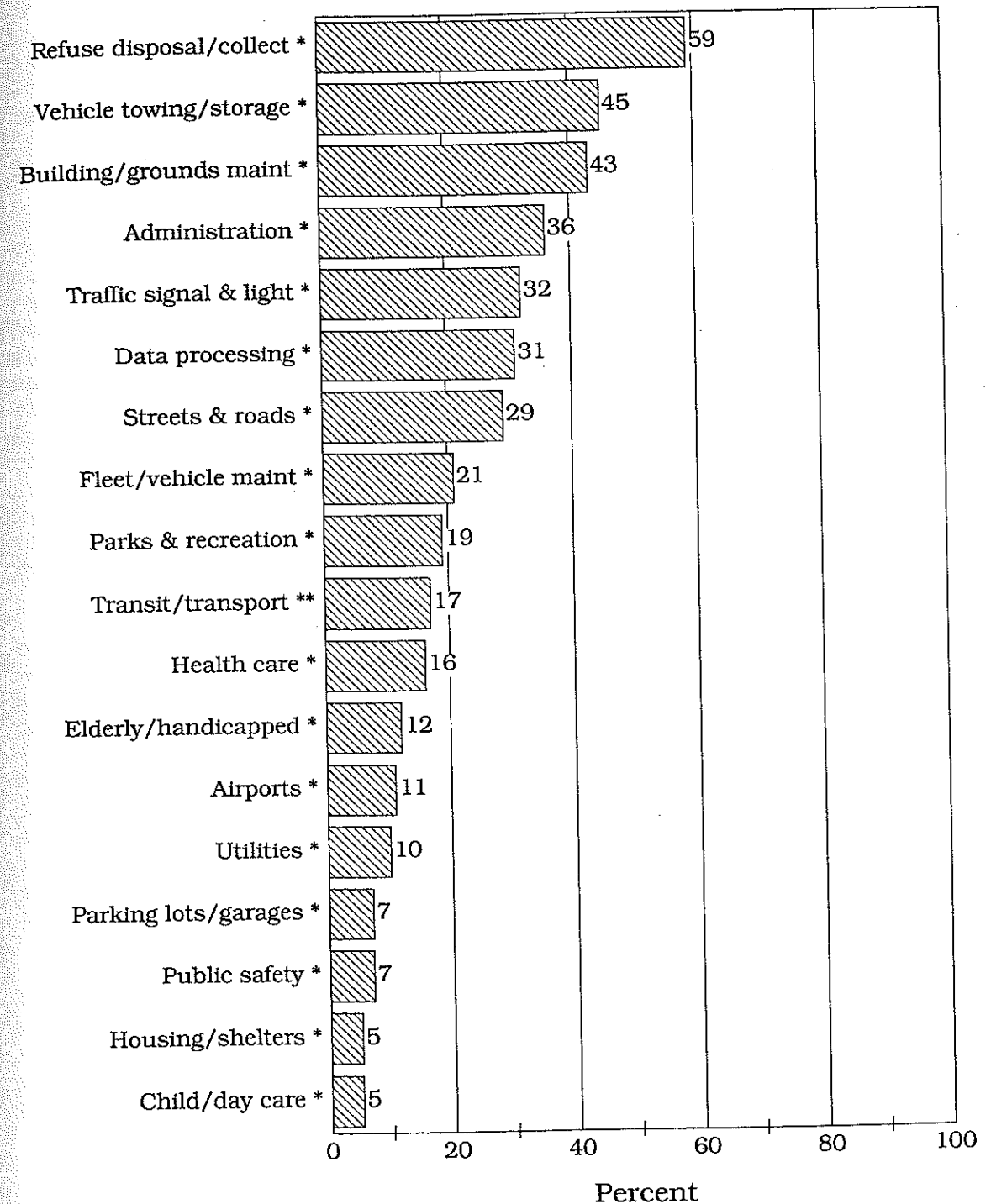
Solid waste collection and disposal is at the top of the list, with 59 percent of the respondents contracting out this service. Next in line are vehicle towing or storage and building or grounds maintenance, with 45 and 43 percent of the respondents contracting out these functions. Administration, including legal, accounting, payroll and collections services were contracted by 36 percent of the governments.

Approximately 30 percent of the survey respondents contracted out for traffic signals or street lighting, data processing and street and road maintenance, while 21 percent contracted out fleet or vehicle maintenance. Between 10 and 20 percent of the governments contracted out portions of their utilities, airports, elderly or handicapped care, health care, transit or transportation and parks and other recreation services including stadiums, convention halls or cultural activities. The lowest levels of contracting out (with fewer than 10 percent of the governments contracting out) were in the functions of parking lots or garages, public safety or corrections, housing or shelter and child care or day care. It is likely that child care or day care services are not generally provided by city/county governments.

The survey also provided information on the extent of private operation of formerly public facilities. The survey data again relates only to those city and county governments that reported having privatized any facilities. As indicated in Figure 2, for the period 1982-1987, 34 percent reported having privatized roads, bridges, or tunnels and 30 percent had privatized street lights and waste water, sewers, or treatment facilities. These were the heaviest concentration of privatized facilities. The figure for roads, bridges, or tunnels includes resurfacing and other construction activities. Facilities in the 15-29 percent range included solid-waste or resource-recovery facilities; water mains and municipal buildings or garages. Housing and

FIGURE 1

Percentage of Selected/Respondent Cities/Counties Contracting Out for Certain Services, 1982 - 1987



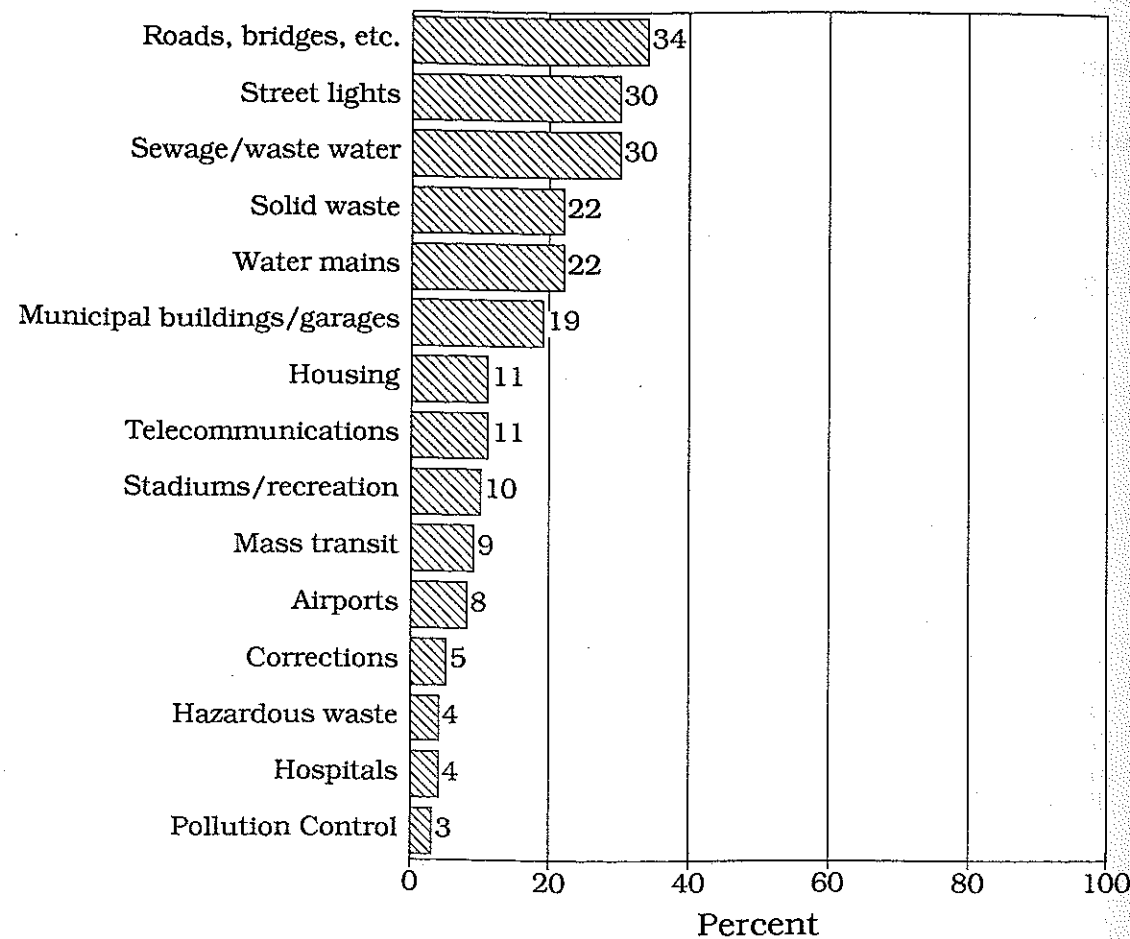
Source: "Privatization in America," Deloitte & Touche (formerly Touche Ross), 1987.

\* Service is contracted out in part by Philadelphia

\*\* Service is not provided by Philadelphia

FIGURE 2

Percentage of Selected/Respondent Cities/Counties with Privatized Facilities, 1982 - 1987



Source: "Privatization in America," Deloitte & Touche (formerly Touche Ross), 1987.

telecommunications were privatized by 11 percent of the respondents and 10 percent privatized stadiums, convention, or recreational facilities. Only 3 percent of the cities and counties privatized pollution control facilities, and 4 percent privatized hazardous waste facilities, and hospitals or extended-care facilities.<sup>3</sup> These services are not usually provided by the public sector.

### C. Why Do Governments Contract Out?

Governments choose to contract out services for many reasons. Most common and most frequently reported, is the prospect of reduced costs. Because of the widely held belief that competition to win contracts drives down the overall price of providing a service, many policy-makers choose to put a public service up for bid in the private sector. As one study notes, "the profit incentive for cost reduction ... has no counterpart in the public sector."<sup>4</sup> With no competition in the public sector, and with no threat of public departments going out of business, proponents of contracting out say that there is theoretically little reason that competing firms would not be able to improve the efficiency and cost-effectiveness of providing certain services.

According to the results of the Deloitte & Touche 1987 survey, heightened interest in contracting out on the part of local governments has been spawned by several events and trends. Increased demand for services was reported by 65 percent of respondents, taxpayer resistance to tax increases (59 percent), the decrease in federal revenue sharing (51 percent), infrastructure decay (44 percent), and programs to downsize government (42 percent). Other reasons included changes in the tax-exempt bond market, federal deficit reduction initiatives, specific initiatives taken on the part of state governments, and changes made by the Tax Reform Act of 1986.<sup>5</sup>

As Stephen Moore notes in his article, "Contracting Out," the efficiency of public departments is inhibited by a lack of incentives for improved performance. In his words, the typical "public sector... 'reward' for efficiency improvements is reduced program funding in the next fiscal year."<sup>6</sup> In the view of E.S. Savas, another proponent of

<sup>3</sup> Ibid., p. 16.

<sup>4</sup> Janet Rothenberg Pack, "Privatization of Public Sector Services in Theory and Practice," *Journal of Policy Analysis and Management*, v. 6, n. 4 (New York: John Wiley & Sons, 1987), p. 536.

<sup>5</sup> David, p. 44.

<sup>6</sup> Stephen Moore, "Contracting Out: A Painless Alternative to the Budget Cutter's Knife," in Hanke, Steve H. (ed.)

contracting out, the high cost of public service provision is due to the monopolistic character of public agency operations. He writes: "the real issue (behind contracting out) is not so much public versus private; it is monopoly versus competition."<sup>7</sup> Savas' main objection to current public sector operations is that public agencies are too often in a position to spend whatever they please for services; very few controls and incentives exist to keep costs down. Where competition can successfully be introduced, costs will be driven down by the same mechanisms that determine success and failure in the private sector.

Certain external factors have also influenced the rise of contracting out and privatization in general. The elimination of federal revenue sharing in 1987, for example, prompted cost-conscious government officials to look for cheaper alternative means to provide services. To complicate matters further, there was mounting public resistance to tax increases, which placed an additional squeeze on local governments.

Governments have other, less crisis-related reasons for contracting out as well.

- o Services that are needed on an intermittent basis (such as snow removal) can often be most efficiently provided through service contracts,
- o Tasks of an especially technical nature can also be more readily obtained in the private sector rather than performed in-house,
- o Governments often wish to avoid the start-up and other additional costs involved in providing new services; contracting for the service can provide an effective alternative.

Privatization advocates advance several economic arguments in support of contracting out. In addition to the built-in mechanisms for cost reduction offered by competition and the profit motive, researchers also point to the potential for large firms to achieve economies of scale which may be reflected in lower cost to the contracting government. Similarly, some research has shown that the private sector experiences lower personnel costs than the public sector. This is especially true in the areas of fringe benefit packages including paid leave time (such as

*Prospects for Privatization* (New York: Capital City Press, 1987), p. 64.

<sup>7</sup> Ibid. (Savas quoted by Moore).

vacation and sick leave), and the number of employees assigned to the task.<sup>8</sup>

#### D. Factors Influencing the Efficacy of Contracting Out

A number of variables affect the performance and efficacy of service contracts. From a cost-saving perspective, positive variables include the potential for competition, the profit motive, and economies of scale. While these and other positive factors are discussed above, this section examines some of the potentially damaging variables affecting service contracts.

First of all, the size and nature of a municipality's economic environment play a critical role in determining the viability of contracting out. Depending on the service, a different number of potential contractors will bid on a contract under varying economic conditions. Other factors determining which companies will come forth to bid include, among other things: fluctuations in the marketplace, the size and value of contracts, the nature of the work to be performed, the extent to which entry by private firms is restricted, and the extent to which governments regulate price.<sup>9</sup> Highly specialized work, contracts that are too large to attract a sufficient number of bidders, unstable market conditions, and stiff regulations can combine in a number of ways to offset potential benefits from contracting out.

Another significant economic issue affecting contracting out is discussed in Harry P. Hatry's book, *Private Approaches for Delivery of Public Services*. Hatry notes that in theory, service provision by a few large companies may permit significant savings through economies of scale. However, since fewer companies are involved in the bidding process, it is not likely that competition will bring down the contract price to optimal levels. On the other hand, bids from numerous smaller firms on smaller-scale contracts may result in lower relative bids due to increased competition, but these companies will not enjoy the savings accrued from economies of scale.<sup>10</sup>

Moreover, and as further noted by Janet Rothenberg Pack "the fixed costs of bid preparation may further cut

<sup>8</sup> *Ecodata*, 1983, as quoted in John Tepper Marlin (ed.) "Contracting Municipal Services: A Guide for Purchase from the Private Sector", p. 8.

<sup>9</sup> Harry P. Hatry, "A Review of Private Approaches for Delivery of Public Services" (Washington D.C.: Urban Institute Press, 1983), p. 32.

<sup>10</sup> Ibid.

potential savings on small contracts."<sup>11</sup> For both extremes, savings in one area are offset by higher costs in another. The solution to this problem, Hatry argues, is to ensure that contracting out scenarios involve companies that are large enough to enjoy some savings from economies of scale, and yet small enough and numerous enough to ensure savings through competition.<sup>12</sup>

Two factors relating to information costs are critical in determining the success or failure of contracting out: the accuracy of a producer's knowledge of production costs, on the one hand, and the ability of a contracting government to unambiguously specify the conditions of contract performance, on the other. The costs associated with inaccurate information in either case can be detrimental to contracting arrangements. For example, if private bidders who win contracts do not know their production costs in enough detail to be able to implement their specific production plans, then they will find that as contracts get under way they must either absorb unanticipated costs at a loss; raise prices beyond negotiated levels; renege on the contract; or renegotiate the contract. Any of these results are likely to disrupt services and probably raise costs as well.<sup>13</sup>

By the same token, RFPs (requests for proposals) from public agencies must be very specific, preferably to the point where service outputs can be measured in quantifiable production units. In this way, questions about what governments are expecting in the performance of a service are minimized, and the likelihood of a dispute arising about conditions of performance are minimized as well. Without output specificity, as the author notes, several complications arise:

The bidder and the government may define outputs differently; the government may realize this only once the production process is underway; dissatisfaction results; costly intervention and renegotiation become necessary. As a result, it may turn out that the firm hired is no longer the lowest cost source.<sup>14</sup>

It is possible that a firm whose realized costs are higher than anticipated will simply absorb the additional costs, but other less desirable outcomes are equally possible.

<sup>11</sup> Janet Rothenberg Pack, "Privatization and Cost Reduction," *Policy Sciences*, v. 22 (The Netherlands: Kluwer Academic publishers, 1989), p. 13.

<sup>12</sup> Hatry, p. 33.

<sup>13</sup> Ibid., p. 13.

<sup>14</sup> Ibid., p. 5.

Finally, union organizations such as the American Federation of State, County and Municipal Employees (AFSCME) have been quick to point out other economic arguments against contracting out. Unrealized cost-savings, low quality, corruption, lack of control and accountability, and reduced services to the poor are among the problems that AFSCME cites in reports such as "When Public Services Go Private."<sup>15</sup>

Costs to local governments that are difficult to measure but should, nonetheless, figure prominently into analyses of contracting arrangements are as follows: costs during the transition from public to private service provision, costs of monitoring performance, and costs of renegotiating contracts that lack specificity or that are underbid by firms eager to land contracts. Possible corruption and the assurance of quality are also factors to be considered, and will likely continue to be potential problems regardless of which sector is providing services.

<sup>15</sup> AFSCME, "When Public Services Go Private: Not Always Better, Not Always Honest, There May Be A Better Way" (AFL-CIO 1987), pp.8-9.

**Chapter II**  
**Contracting Out Experiences in Other Jurisdictions**

While Chapter I examined the theoretical arguments for and against contracting out, Chapter II turns to a study of different local governments' experiences with contracting out. The goal is to uncover the issues that appear to have determined the success and failure of contracting in various locales, in the hope that prospective contracting scenarios in Philadelphia would benefit from the lessons learned.

**A. National Data on Contracting Out**

Cost Savings: The Deloitte & Touche study provides data on cost savings from contracting out, for those governments which indicated that cost reduction was the primary motivation.<sup>1</sup> The percentage of governments reporting cost savings were:

<u>Percentage Cost Saving</u>	<u>Percentage of Governments</u>
Added Costs	2
0 to 9	18
10 to 19	40
20 to 29	24
30 to 39	6
40 or more	10
Total	100

Median and modal cost savings reported were in the range of 10-to-19 percent.

Type of Vendor: It is notable that contracting out is not always with the private sector. In the survey, 29 percent of the governments reported contracting with other governments. Among governments using private sector vendors, 92 percent used firms that had previous contracting experience, while 21 percent reported using first-time vendors.<sup>2</sup>

Degree of Satisfaction: Of cities which have contracted out services, those that have contracted out solid waste collection, street maintenance and park

<sup>1</sup> Irwin T. David, "Privatization in America", p. 18, Deloitte & Touche (formerly, Touche Ross & Co.) Washington, DC 1987 (see also Chapter 1, foot. 2).

<sup>2</sup> Ibid., p. 8.

landscaping, were reported to be the most satisfied with the results, according to a survey done by the Consumer and Business Research Center at Wright State University.<sup>3</sup>

Over 75 percent of the cities which have contracted out these services were very or somewhat satisfied with the results. Less satisfaction with services was found in the health care, tax collection, transportation and vehicle towing service areas: 20 percent of the survey respondents were somewhat dissatisfied with the tax collection services of the private sector and approximately 9 percent were dissatisfied with the health care provision. Figure 3 summarizes the satisfaction rates for contracting out eight different services.

**Barriers To Privatization:** The number one impediment reported by the Deloitte & Touche survey was concern about the loss of control once a service has been contracted (51 percent). The other main barriers to privatization as reported in the survey were: union and employee resistance to contracting (47 percent), political difficulties for agencies in convincing municipal governments to adopt contracting measures (42 percent), a lack of belief on the part of the public that contracting would be workable and beneficial (38 percent), and bureaucratic inertia (26 percent).

#### B. Comparative Data for 1983 and 1987

Dr. Janet Rothenberg Pack has compiled and analyzed data from a 1984 International City Management Association special report on local service delivery in 13 jurisdictions.<sup>4</sup> Her article, "Privatization and Cost Reduction," analyzes the theories behind successful contracting, and compares the ICMA data to her own follow-up surveys of the same places in 1987. The places are mostly in the West and South, with populations ranging from 10,000 to 800,000. The report accomplishes three ends: it summarizes a "cost minimizing competitive bidding model" of contracting out; it examines the ways in which optimization theories have been realized in practice; and it compares the successes and failures of various cost minimization efforts.<sup>5</sup>

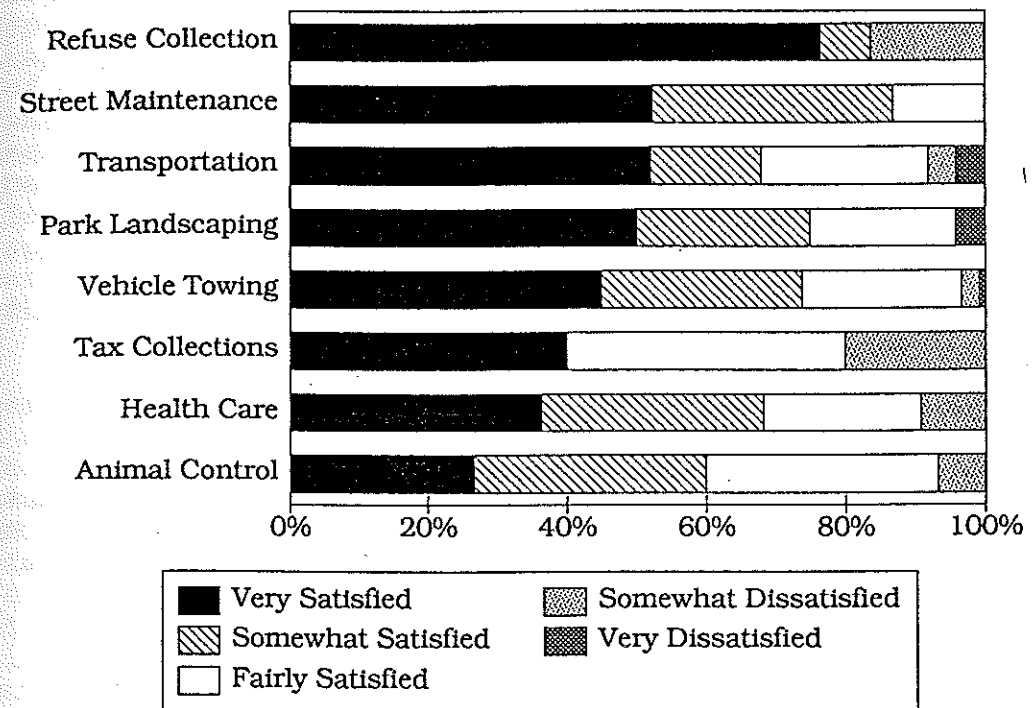
<sup>3</sup> Harper Rhoehm et al., "Contracting Services to the Private Sector: A Survey of Management Practices", *Government Finance Review*, February 1989, pp. 21-25.

<sup>4</sup> International City Management Association, "Rethinking Local Services: Examining Alternative Delivery Approaches", (Management Information Service Special Report No. 12, 1984).

<sup>5</sup> Pack, *Policy Sciences*, pp 1-25.

FIGURE 3

Degree of Satisfaction with Contracting Out Among 288 Cities



Source: "Contracting Services to the Private Sector: A Survey of Management Practices," *Government Finance Review*, February 1989.

Pack's evidence supports the notion that competition brings down price. In cases where savings were large (20 to 60 percent), there was greater competition among companies carrying out relatively simple services. Little skilled labor or capital was involved, and activities focused on custodial services and landscape maintenance.

Complex services - both in terms of production and outputs - attracted fewer bidders and resulted in lower levels of savings. Facilities management, solid waste collection, fleet management and vehicle maintenance fell into this category.<sup>6</sup>

Savings from contracts were attributed in most cases to lower labor costs, either from the use of smaller work forces or lower wages or fringe benefits. Consequently, labor-intensive services were better candidates for realizing savings from contracting out.<sup>7</sup>

The amount of savings achieved initially in a contract appears to play an important role in determining whether or not a contract will continue to save a government money in the long run. It is not clear, however, whether the contracting governments updated their own costs in evaluating the continuing cost impact of contracting out. Half of the places from the Pack survey continue to claim cost savings from their contracts let between 1983 and 1987. In every case where initial savings were high, savings figures remained positive over time. Where savings were very low initially, however, they disappeared over time as costs increased.<sup>8</sup>

In other cities where public production of a service had resumed, the retreat from contracting was undertaken either because of dissatisfaction with the contractor (as in Gainesville, Florida), or because public agencies demonstrated an ability over time to perform the service more cheaply (as in Phoenix, Arizona). Two other cities also felt that costs in 1987 for private and public production would be about the same.<sup>9</sup>

Contrary to many theoretical assumptions about the nature of contracts with private firms, both labor intensive contracts and capital intensive contracts furnished examples of successful operation as well as disruption. The importance of this fact is depicted in Dr. Pack's own summary of her survey findings:

<sup>6</sup> Ibid., p. 9.  
<sup>7</sup> Ibid., p. 10.  
<sup>8</sup> Ibid., p. 22.  
<sup>9</sup> Ibid., p. 15.

the detailed specification of output requirements - for simple as well as complex outputs - characterizes the contracts that have not been disrupted. This suggests not only that simple services need such specification but also that complex services are capable of such specification. Further, the process of ensuring successful implementation of contracts, whether simple or complex appears to be enhanced by making explicit provision for continuous interaction between the government agency and the contractor. In contrast, monitoring, which can be quite costly, appears to identify problems after they become serious and are then not easily resolved without major change.<sup>10</sup>

Quality Control Techniques: An important difference appeared between cities that monitored contract performance and cities that promoted formal interaction between contractors and public agencies before and during the term of contracts. "Monitoring" and "interaction" are distinct from one another as techniques of controlling contract performance quality. Monitoring relies on the observations of contractor performance by agents of the department that initially contracted for service, while interaction is defined as the inclusion of a contractor representative in agency policy and planning meetings, together with the establishment of regular contact through reports from managers to agency officials.

As evidence of the marked difference between these two quality control techniques, Dr. Pack separated her data according to which technique was used. Of seven contracts that experienced no disruption in Pack's sample of fourteen contracts, five had provisions for interaction between the contractor and city agency, with costs that ranged from 2 to 5 percent of the contract.

However, in seven cities that experienced disruption of contracts, only one had provisions for interaction, while the other six provided for monitoring activities, whose costs ranged from 3 to 15 percent of the contract. Overall, provisions for interaction were less costly on average than monitoring costs by approximately 11 percent.<sup>11</sup> To the extent that interaction saved money by allowing problems to be solved earlier rather than later, Dr. Pack's evidence supports the old adage that an "ounce of prevention" is worth a "pound of cure."

<sup>10</sup> Ibid., p. 21.  
<sup>11</sup> Ibid., p. 21.

### C. California Cities-1981 Study

Many cities in the state of California have used contracting out in a variety of ways, with mixed success. A 1981 study by the California Tax Foundation found that 39 cities in the state of California held approximately 300 contracts for different services.<sup>12</sup> San Jose (estimated 1986 population: 712,080), with 22 contracts for services, ranked highest in the number of contracts among the cities reporting.

The study's executive summary report highlighting California's experience with contracting out, stated that trash collection and traffic and signal light maintenance were the most common services contracted.

The most common advantages for cities that contracted were:

- o reduced labor costs;
- o lower overhead;
- o ease in adjusting program sizes; and
- o increased availability of special equipment and skilled personnel.

The most common disadvantages of contracting were:

- o unreliability on the part of contractors; and
- o difficulty in monitoring contracts.

The study points out the difficulty in distinguishing between cost increases that are due to inflation of service costs and cost increases that are genuinely part of the costs of contracting out. Moreover, the study maintains that "many cities do not have cost accounting systems which permit relevant comparison of total costs (direct and indirect) on a 'before' and 'after' basis."<sup>13</sup> This makes it very difficult to determine whether any cost increase occurring after contracting was greater, less, or the same as that which would have been the case had the service continued to be performed in-house.<sup>14</sup>

The contracting experiences in these 39 California cities raise a cross-section of issues that are relevant to any government that is considering contracting out. For example, the issue of how to mitigate situations in which contractors submit unrealistically low bids in order to

<sup>12</sup> California Tax Foundation, "Contracting Out Local Government Services in California" (Sacramento, California: California Tax Foundation), June 1981.

<sup>13</sup> Ibid., p. 8.

<sup>14</sup> Ibid.

secure contracts (a practice called "lowballing" in the literature of the AFSCME), has been effectively dealt with by the city of Garden Grove, California (1980 population: 123,307). Shortly after the city awarded a five-year contract for street-sweeping in 1977, it became clear that rises in the cost of labor and fuel were going to cause the contractor to have to default on the contract. When the company requested renegotiation, the city saw that it faced the prospect of significant cost increases in the near future.

Moreover, the city could not find another contractor who could fulfill the city's needs, nor could it afford to perform the service in-house. The city therefore decided to re-bid the service after splitting it into two districts. This generated greater competition because a larger pool of bidders was able to compete for the service. The city also increased the flexibility of its request for proposals by encouraging bidders to submit alternative proposals. This measure, together with the division of the city into two districts, provided the city with greater protection from service defaults.<sup>15</sup>

Accountability/Control: Problems of accountability and control are dealt with in many ways by California's cities as well. Pasadena (1980 population 118,072) requires its landscape-maintenance contractors to submit copies of daily work schedules to the city's monitors.

In other locations, cities have retained the right to ask custodial-services contractors to fire unsatisfactory employees and to deduct the cost of doing incomplete work from contractor's fees. The city of Loma Linda, California relies on the right to adjust the price of contracts downward for performance that does not meet up to specified standards. La Mirada requires contracting coordinators to participate in city staff meetings. Numerous cities have structured contract agreements in such a way as to build incentives and penalties into their contracts.<sup>16</sup> These various mechanisms have been developed by the cities over time to suit their particular needs and systems of government, and in almost all cases have helped to reduce costs and inefficiencies.

<sup>15</sup> Philip E. Fixler, Jr. and Robert W. Peele, Jr., "Status of Local and State Privatization", in Steve H. Hanke (ed), *Prospects for Privatization* (New York: Capital City Press, 1987), p. 173; Janet Rothenberg Pack, "Privatization and Cost Reduction", *Policy Sciences*, v.22 (The Netherlands: Kluwer Academic Publishers, 1989), p. 13.

<sup>16</sup> Ibid.



#### D. Examples of Contracting Out In Two Cities

This section examines in some detail the records of two cities--Phoenix, Arizona and Newark, New Jersey--that have substantial experiences with contracting.

##### Phoenix, Arizona

Phoenix, Arizona (1986 population: 894,070) has an innovative and successful system for contracting for services. In the late 1970s, the city began looking at ways to involve the private sector in municipal operations in order to increase efficiency and bring down costs. The city decided that the solution was to take bids for contracting certain services. However, the city would agree to contract only certain areas of Phoenix, and in each case the public agency that performed the service would be allowed to submit its own bid along with bids from private contractors.

**Bidding Process,** To alleviate contractors' fears that they would be playing against stacked odds in a public bidding procedure that included a public agency, the city established an independent city auditor "department" to place bids on behalf of the agency. Composed of city council members, the city manager, the mayor, and city staff members, the auditor department was designed to evaluate costs in a manner that was independent from the influence of other city departments. After reviewing past financial records and assessing costs in areas relevant to the service contract, the auditor department would place the bid on behalf of the department, keeping the bid price in a sealed envelope until the opening day of bidding.<sup>17</sup> To help deal with threats to city workers' job security and other labor problems, Phoenix adopted a policy of open discussion for union leaders about services that were being considered for bidding. By informing unions that they were very close to the point of having to compete with private contractors, the city discouraged lackadaisical performance and prepared labor forces to compete for the right to provide services. In addition, the city made it a point to hold numerous pre-bid conferences to allow contractors to be clear about service specifications. The conferences also gave the media, the public, and other interested parties an opportunity to ask questions.<sup>18</sup>

**Refuse Collection,** It was with this structure in place that Phoenix began taking bids for refuse collection in

<sup>17</sup> Mark Hughes, "Contracting Services in Phoenix", *Public Management* (Washington, D.C.: ICMA Publications), October, 1982, p.2.

<sup>18</sup> Ibid, p.3,4.

1978. With the city divided into five sectors, bids were taken for different areas over the course of several years. The city retained control over approximately half the city at any given time, while placing the other half up for bidding. The purpose of the city retaining control over half the city's refuse collection instead of bidding and potentially contracting it all out was to prevent the city from ever putting itself "completely at the mercy" of private collectors.<sup>19</sup>

For the next several years that bids were requested for trash collection, the city won ten out of twenty-two contract awards,<sup>20</sup> with the city underbidding the competition for one district in 1984 by approximately \$1 million.<sup>21</sup> By 1987, the city had won the last two competitively bid contracts, and since then the service has been handled entirely by city workers.<sup>22</sup>

One overriding factor in the city's ability to achieve savings in the area of refuse collection has been a change in the attitudes of workers. In the words of Robert Jensen, the director of Phoenix Public Works, the city sanitation workers

are really in a competitive mode. We have cut our costs way back because we have learned from private contractors. We have the unions convinced of the need to improve productivity.<sup>23</sup>

The success of bidding and contracting in Phoenix is attributable to the carefully controlled introduction of competition into the work environment; private firms and public agencies alike know that they will have to compete in order to earn the right to provide services like refuse collection. The lesson from contracting refuse collection in Phoenix has been that public bidding, clear contract specifications and performance goals, and careful control of the division of labor between the public and private sector can cut costs substantially.

<sup>19</sup> Ibid., p.3.

<sup>20</sup> Ibid., p.2.

<sup>21</sup> Steven Moore "Contracting Out: A Painless Alternative to the Budget Cutter's Knife," in Steve H Hanke (ed.), *Prospects for Privatization* (New York: Capital City Press, 1987), p. 64.

<sup>22</sup> Pack, "Privatization and Cost Reduction", p. 15.

<sup>23</sup> Ibid.

**Newark, New Jersey**

As of November, 1987, Newark, New Jersey (estimated 1986 population: 316,300) was reported to have the greatest number and variety of contracts with the private sector of any city on the East Coast of the United States.<sup>24</sup> Beginning with solid waste collection in 1977, the city went on to contract some or all of nineteen different services within the public works function, leading to significant savings.

For example, the city estimates that it saved between \$900,000 and \$1,800,000 during the first three years (1977 through 1979) of its first five-year contract for solid waste collection. This contract authorized a private contractor to collect solid waste in one-third of the city, while the municipal sanitation division collected for the other two-thirds of the city. This arrangement is still in place in Newark in 1990. In Figure 4, data compiled in two year-long studies reveal several other important statistics about the performance of the contractor and the city. The studies cover two separate periods of the contract, July, 1979 to June, 1980, and July, 1980 to June, 1981, and were carried out by a private consultant hired by the city.

The costs and performance indicators in the first study year show that the contractor by far outperformed the city's sanitation division. In particular, the contractor's costs per ton of collection were \$8.34 less than the city's - a 17.5 percent savings. These savings were associated with much higher crew productivity: more tons collected per man work day, more stops per minute to collect a larger number of containers per minute, and more stops per route.

Moreover, follow-up telephone and mail surveys indicated that levels of satisfaction with service quality among citizens were about the same for the contractor and city collection areas. In both the telephone and mail surveys, however, more respondents served by the city reported service delivery problems than did those citizens who were served by the contractor.<sup>25</sup>

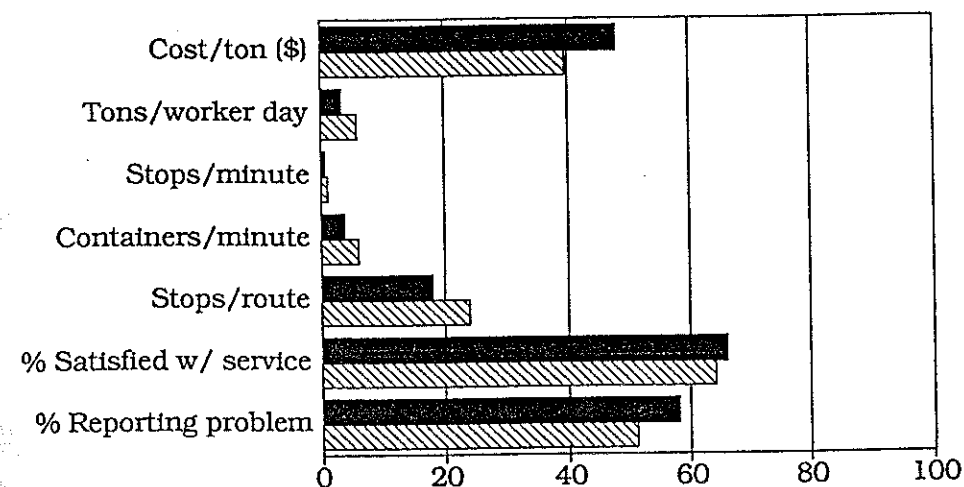
In the contract year 1980-1981, a follow-up survey conducted by the same consulting firm indicated that the city's performance improved drastically, while the contractor's performance improved slightly over the previous year. Costs per ton of disposal rose for both the city and the contractor, but for the former only by \$2.11, and for

<sup>24</sup> Alvin L. Zach, and Frank J. Sudol, *Privatization: The Newark Experience*, New Jersey Municipalities (Trenton: New Jersey State League of Municipalities), November, 1987, p.6.  
<sup>25</sup> *Ibid.*, p. 33.

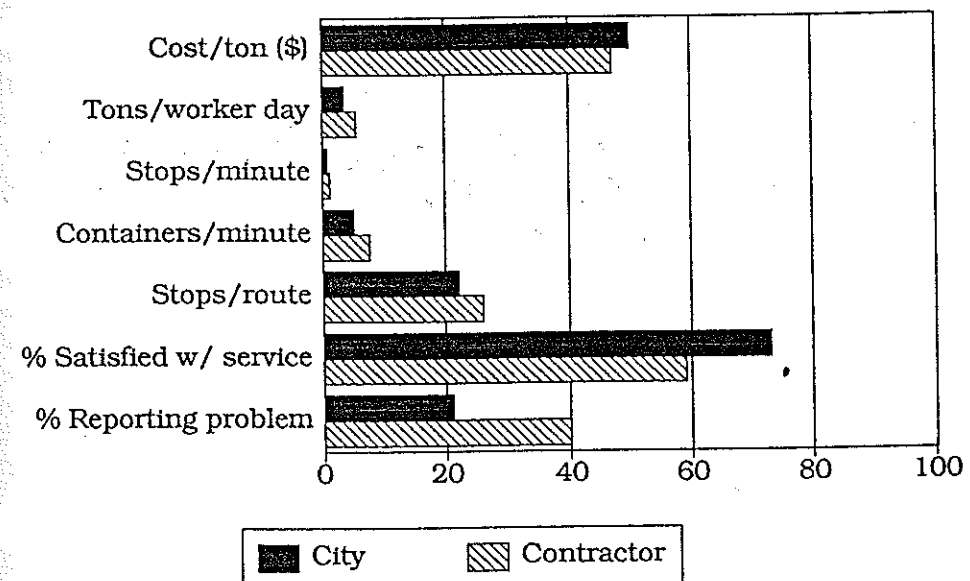
**FIGURE 4**

**Trash Collection Performance  
In Newark: City versus Contractor**

**FY 80**



**FY 81**



Source "Privatization, The Newark Experience," New Jersey State League of Municipalities November, 1987.

the latter by \$7.59. Satisfaction with the performance of the city's Sanitation Division rose from 66 to 73 percent, while satisfaction with the contractor fell from 64 to 59 percent.

The author notes:

In conjunction with entering into a refuse collection contract, the Newark Sanitation Division, under the guidance of the Director of Engineering, has made several major changes in management, manpower, vehicles, vehicle maintenance, and routing. Furthermore, the city has upgraded its ordinances with respect to containerization. These changes appear to have been very successful. The price gap between city crews and the contractor has narrowed. City crews have become more productive.<sup>26</sup>

Once again, as was the case in Phoenix, the introduction of private contracting appears to have brought large amounts of initial savings to the city. After the first year or so, however, the dramatic difference between contractor and city performance narrowed significantly, as relative costs came down due to management initiatives on the part of the city, and relative costs rose for the contractor. The sharp rises in costs to the contractor, though it has not been proven, may well have been due to lower initial bids entered in order to obtain the contract. Competition between service providers - in both the public and private sectors - appears in both cases to have kept costs to a lower level than before contracting was begun.

<sup>26</sup> Ibid., p. 33.

### Chapter III Philadelphia's Experiences with Contracting Out Services

In addition to contracting out for practically all capital improvements, Philadelphia has a long history of contracting for some operating functions. The city now contracts out for a range of services, from child care to maintenance of street lights. This section reviews the amount and concentration of the City's contracting out for FY90. It provides information which will be helpful in considering the potential for increased opportunities. Also included are measures of change from FY80 to FY90.

For the purpose of this analysis, PEL classified as contracting out only expenditures for professional, consultant and specialized service (Class 250 expenditures), repair and maintenance (Class 260 expenditures), payments for care of individuals (Class 290 expenditures), plus other Class 200 costs if they appeared to be directly related to service provision.<sup>1</sup>

#### A. Which Services are Contracted Out?

The Philadelphia services functions which have the highest percentage of FY90 expenditures in contracts are health care, streets, and human services (Figure 5). Among major service functions, 80 percent of the budget for health services was contracted, 60 percent of the streets budget and 56 percent of the human services budget were contracted.

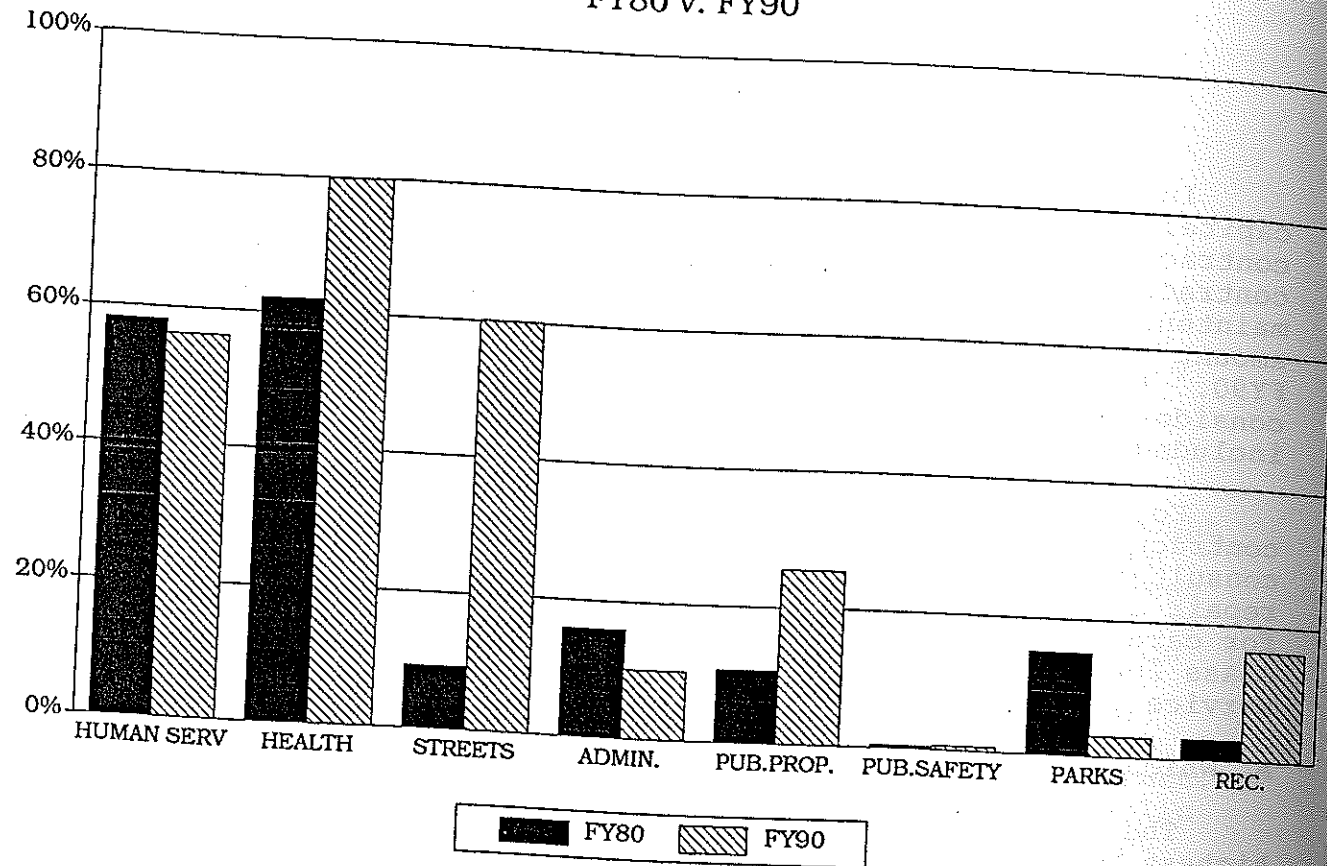
Among specific service categories, 96 percent of the mental health and retardation budget was contracted out, followed by 95 percent of the solid waste disposal budget. As indicated in Table B1, these are followed by delinquency and children and youth services and homeless services. Between 70 percent and 80 percent of the budget for these functions represents contracts with private or nonprofit providers.

Approximately 64 percent of the street lighting budget (excluding electric power) is put into contracts for repair

<sup>1</sup> In the city's accounting system, class 200 encompasses purchase of services. This was the fastest growing element of the city budget between 1980 and 1990. In addition to the "contracting out" items included in the analysis in this chapter, class 200 includes city payments for utilities, leases, rentals, and postage.

FIGURE 5

Percentage of Expenditures Contracted Out  
FY80 v. FY90



Source: City of Philadelphia, "The Mayor's Operating Budgets for Fiscal Years 1982 and 1990"

\* Contract Expenditures were defined as expenditures for professional, consultant or specialized services (Class 250), repair and maintenance expenditures (Class 260), and payments for care of individuals (Class 290). Other Class 200 expenditures directly related to the provision of services were also included.

For purposes of comparison, electrical current expenditures have been excluded from the general fund budget for Street Lighting and lease/purchase vehicle expenditures have been excluded from the total budgeted for Automotive Services.

and maintenance of lights. Almost half of community health services (49.6), the stadium complex maintenance services (47 percent), building and custodial services in the Department of Public Property, (46.5) and over 20 percent of highway maintenance services are contracted out.

While earlier sections of this report showed that two of the most common services contracted out by other cities are solid waste collection and automotive services, Philadelphia contracts out only a relatively small percentage of the budgets of these activities. Only 5 percent of the automotive services budget and 6 percent of the solid waste collection budget is contracted out.

Almost one half of the city departments with budgets of at least \$1 million contacted out less than 5 percent of their budgets. Three departments (Human Services, Public Health and Streets) accounted for almost 90 percent of all the city's contracting out dollars (Table B2).

#### B. Comparison with Contracting Out in FY80

Comparison figures from FY80 show that contracts now account for a greater percentage of the budget. As presented in Figure 5, 5 of 8 City functions showed an increase in the percentage of their budget contracted. Of 24 selected services listed in both years, 17 had a greater percentage in contracts in FY90 than in FY80, while the share of contracts declined for 6 of the services (Table B1).

The largest decline was in landscape management services (Fairmount Park Commission). In 1980, 18.5 percent of this service was contracted out; in 1990, less than 1 percent. In FY81, the Commission switched from a private contractor to inhouse for these services which dealt mainly with tree pruning, spraying and removal both in the park and for city streets. The City no longer provides these services for city streets.

Among the 17 budget units with increases in the percentage of their budgets devoted to contracts, solid waste disposal experienced the most substantial gain, rising from 14 percent to 95 percent. This was a result of the City no longer being able to dispose of solid waste in city-owned landfills and having to contract out for landfills.

Another activity with a substantial increase was building and custodial services. In 1980, 18.2 percent of these budgets represented contracts; in 1990 the amount was 46.5 percent, an increase of 28.3 percentage points. This was primarily the result of an increase in the City's share of funding in the Mall Maintenance and Market East contracts. The City had agreed to contribute a certain

amount of funds to the Mall Maintenance Corporation through the Philadelphia Authority for Industrial Development in lieu of City maintenance of common public mall areas.

### C. City Contracting Provisions

The City's current authority to contract out is severely limited by its labor agreement with Locals 33 and 47 of AFSCME. The current collective bargaining agreement stipulates no layoffs until June 30, 1992. Additionally, the contract with Local 33 does not allow for contracting out unless "it has been determined that it is more economical for the City to contract out to a Union contractor, rather than to have the work performed by the employee within the unit".

Under the Home Rule Charter (Section 8-200), all city contracts must be let to the lowest responsible bidder with two exceptions: professional services and purchases of unique articles. All contracts for expenditures over \$2,000 must be let through a formal competitive bidding process. Home Rule Charter Section 6-104 states that before any contract shall be effective, the Director of Finance shall approve it as to availability of funds.

As to the maximum length of contracts, the Home Rule Charter provides that no contract may be executed unless an unencumbered appropriation is available. This requirement restricts contracts to one year, which is the term of the operating budget ordinance, with the exception that longer contracts may be executed if City Council approves the contract. But even in the latter case, a four-year escape clause must be inserted in all contracts, with the exception of contracts with authorities.

### D. Philadelphia's Experience with the Most Commonly Contracted Out Services

This section examines in some detail, Philadelphia's contracting trends for some services frequently contracted out: automotive, solid waste collection and disposal, and building/ custodial.

The percentage of contracting out for these services for four of the past ten years is provided in the tabulation below. Building and custodial services are combined because, up until the 1990 fiscal year, they were combined in the operating budget.

	1980	1983	1986	1990
Automotive Services	4.3%	7.4%	4.3%	4.7%
Solid Waste Collection	5.6%	3.4%	4.4%	5.9%
Solid Waste Disposal	14.0%	11.6%	71.8%	95.0%
Building/Custodial	18.2%	21.6%	33.4%	46.5%

Contracting out of automotive services and solid waste collection has remained relatively constant over the ten year period, whereas for solid waste disposal and building/custodial services, it has increased substantially. These four service areas are discussed below.

#### 1. Automotive Services

The Automotive Services Division of the Department of Public Property carries out centralized vehicle maintenance and repair functions for the city. (Some city departments, including the Police, Streets and Water Departments also have automotive service units.)

Over the past 10 years, the average percentage of the budget (excluding vehicle leasing) of the Automotive Service Division contracted out for these services has been about 5 percent. Generally, the services contracted out are appraisals of damaged vehicles and automotive fluid analyses. An insignificant amount of the repair or maintenance functions are currently contracted out.

#### 2. Sanitation Services - Solid Waste Collection and Disposal

Prior to 1922, solid waste collection and disposal services were provided by private contractors.<sup>2</sup> Since then, they have been carried out mainly by city personnel. In early 1988, the city sought bids for waste collection and disposal. Bids were received in March, and the contracting proposal was included in the proposed FY89 budget.

The proposal specified that the contractor was to give first hiring preference to current Sanitation Division employees. It also stated that the contractor was required to compensate their employees at the "prevailing Philadelphia metropolitan area wage rates". The proposal did not specify what source would be used to determine prevailing wages.

<sup>2</sup> "Contract Street Cleaning Died December 31, 1921", *Citizens' Business*, January 5, 1922 (Bureau of Municipal Research).

In his FY89 Budget Message, the Mayor anticipated union resistance, declaring that:

I am a lifelong supporter of organized labor and while part of my financial plan anticipates privatization, which they may find difficult, I am resolute in pursuing this only to the extent that labor fails to work with the City to find meaningful and cost effective alternatives.<sup>3</sup>

Private contracts for trash collection and disposal were presented as a stop-gap measure to handle the critical solid waste management problems of the City until the "trash to steam" plant was approved and operating. (The "trash to steam" proposal was subsequently defeated).

Since a multi-year private contract was proposed, City Council approval was necessary. On April 21, 1988, a bill was introduced in the City Council authorizing the Streets Commissioner to enter into four-year agreements with Waste Management of Pennsylvania, Inc. and with Browning Ferris Industries of Philadelphia, Inc. for the collection and disposal of solid waste in the City. Five agreements were to be with Waste Management, Inc. for the collection and disposal of waste in five areas; Browning Ferris Industries would collect solid waste in the sixth area. The bids from Waste Management, and Browning Ferris, which were the only two bidders, were \$32 million for collections and \$75 million for collection and disposal.<sup>4</sup>

The City's costs for providing the same services were significantly higher. The estimated costs for solid waste collection and disposal for the City (excluding district 2) were \$114.2 million. Comparing the public and private sector prices, the private bids were 34 percent lower for collection and disposal combined. When this bill was referred to the committee of the whole Council, it was rejected.

As a replacement, a bill (Bill 173) for solid waste disposal only was introduced in late May, and was passed in late June 1988, allowing the Streets Commissioner to enter into contracts with Waste Management for the disposal of all municipal solid waste (subject to a cap on the total tonnage) over a four-year term. The City's FY90 budget set aside \$56.3 million for solid waste disposal contracts, approximately 95 percent of the total solid waste disposal expenditures.

<sup>3</sup> Mayor's FY89 Budget Message, Appendix to the Journal of the Council January 1, 1988 to June 30, 1988, v. 1A, p. 255.

<sup>4</sup> City of Philadelphia, Streets Department, 7/26/89.

In contrast, the FY90 budget allocated only \$2 million for solid waste collection contracts. The percentage of solid waste collection services contracted out over the past ten years has remained relatively constant, at approximately 5 percent of the budget. This long-standing contract is with collectors for pig farmers, who collect garbage from certain areas to use as feed.

### 3. Building Services

The Building Services Division of the Department of Public Property is a labor intensive unit, with more than two-thirds of its budget allocated for personnel costs. As such, it would appear to be a good candidate for contracting out, if labor costs could be reduced.

Many repair and maintenance functions are contracted out by the Building Services Division. These include elevator and escalator maintenance and repair, building maintenance, air conditioner maintenance and oil burner maintenance. Contracts in the FY90 budget total \$636,950.

A comparison with FY80 levels of contracting out for these services is not possible given the format of the budget. The FY80 budget combined custodial and building services expenses, while custodial services were put into a separate division in the FY90 budget.

### 4. Custodial Services

By nature, custodial services are labor intensive, and therefore have a high potential for savings from contracting out. The Custodial Services Division in the Department of Public Property is responsible for cleaning the Municipal Services Building, City Hall and adjacent concourse areas. Departments in other city-owned facilities either contract out or have a physical maintenance worker or a custodial worker on their staff. However, contracting out is minimal (slightly over \$100,000), with the exception of the stadium complex which amounts to almost \$600,000.

The Custodial Services division budget includes paying for contracts for custodial services for the Market Street East station concourse and for the common areas of the Gallery Mall. It also has a contract for a portion of the custodial services for the I-95 access highway right of way near Penn's Landing. The Mall maintenance contract is the largest by far, exceeding \$2 million in the FY90 budget. The total amount in contracts for FY90 is over \$3.6 million.

Because Custodial Services had been included with Building Services in the operating budget of the Department of Public Property up until FY90, it is impossible to determine how much of the general fund went to custodial

service contracts and how much went to building service contracts in 1980.

#### D. Summary

Overall, Philadelphia contracts out for a greater number and percentage of services now than it did ten years ago. The percentage of the budget representing contract expenditures has increased from approximately 22 to 37 percent from 1980 to 1990. This change is not attributable to the city contracting out for services formerly provided by its own employees; rather, it represents expenditure increases in functions traditionally contracted out in Philadelphia, such as health and human services and trash disposal.

For the four service areas examined in detail, the increased percentage that the City has put into contracts reflect the unique occurrences described above. The amount of contracting out of regular, recurring services has not significantly increased between 1980 and 1990.

### Chapter IV Cost Implications for Contracting Out Specific Philadelphia Services: Comparisons of Four Models

The best way to determine the cost implications of extending contracting is for the city to go out for bids for services now carried out by city employees. However, in this chapter, PEL develops models for four Philadelphia city services to determine whether contracting out could result in significant cost reductions. The services examined are custodial, building maintenance, vehicle maintenance and sanitation. As noted earlier, they are typical of services contracted around the country.

An important factor in evaluating contracting out as an option is the city pay scale relative to the private sector. City pay scales for the predominant job classes are higher than the private sector for one of the four services (custodial) and lower for two (building services and vehicle maintenance). Data were not available regarding the private sector pay scales for the predominant job classes in the sanitation services, and the comparisons for those classes were based on the assumption that city and private pay scales were the same.

#### A. Methodology for Computing Models

The models consist of two projections of private sector costs for each service, to compare with city costs. Projection One assumes that the private sector, in addition to having its own pay scales and pay supplements patterns, also achieves efficiencies that allow firms to employ 10 percent fewer workers than currently employed by the City. The 10 percent figure was chosen as an indicator only, and could differ substantially. The primary rationale is that private sector firms pay considerably less for time not worked, such as days off for holidays, vacation, and sick leave than does the City, as discussed below. Moreover, private firms will not necessarily observe the same strict work rule agreements that control work time, crew sizes, and types of equipment used under public service union contracts. As to non-personnel costs, Projection One assumes that these are the same in the city and private sector. In Projection Two, these are decreased by 10 percent for the private sector.

The source for most of the City costs is the Philadelphia FY90 budget. The cost figures include pay, other operating costs, and equipment costs. The benefits entries included under the City costs were calculated by the PEL, based on information provided by the City's Director of Accounting. The benefit figures do not include costs such

as retiree health benefits or payments for prior year unfunded pension liabilities; the reason is that these costs would continue even if the city contracted out the service.

Information from different sources was used to construct models of private sector pay and benefit costs for the comparisons. The study estimates pay and benefits mainly through the use of materials from the U.S. Department of Labor, Bureau of Labor Statistics. Where city occupations have counterparts included in the area wage survey, pay for non-supervisory positions was calculated using figures from the November, 1988 publication of the *Philadelphia, Pennsylvania-New Jersey Metropolitan Area Wage Survey* updated by the November, 1989 publication, to bring the data up to an estimated July 1, 1989 level.<sup>1</sup> For supervisory positions that do not have published figures (as is the case for crew leaders), wages are calculated by assuming the same relationship in the private sector between worker and supervisor wages as in the City pay plan. Where city occupations have no counterparts included in the area wage survey, City pay rates are used.

Benefits (other than pay for time not worked) are calculated as a percentage of pay, based on information in the March 1989 release of *Employer Costs for Employee Compensation*. (Table B3) This publication is not area-specific, and therefore the calculation is based on national rather than local data. Employers' costs per hour worked were converted to employers' costs per hour paid to make the Bureau of Labor Statistics figures comparable to the data in the Philadelphia budget.

The projections take into account, as a possible productivity improvement, the relatively high value of Philadelphia's time off with paid leave benefits as compared to the private sector. As noted above, the differential in such benefits is an element in the assumption that the private sector will have 10 percent fewer employees than the city.

<sup>1</sup> U.S. Department of Labor, Bureau of Labor Statistics. *Area Wage Survey: Philadelphia, PA-NJ Metropolitan Area November 1988* Washington D.C.: U.S. Government Printing Office, March 1989, and November 1989, page 13, also *Employer Costs for Employee Compensation*, - March 1989, June 1989, Table 9.

Based on national surveys, the total value of private sector payments for time not worked including vacations, holidays, sick leave and other leave (expressed as a percentage of total payroll) was 8.5 to 10.6 percent.<sup>2</sup> Based on information presented in a May 1990 PEL analysis and summarized in Table B4, for Philadelphia's unionized employees, this value ranged from 16.7 percent (Local 2187, District Council 47, professional-technical employees) to 19.6 percent for the City's District Council 33, covering most non-professional white collar employees and all blue collar employees.

#### B. Findings for Four Models

As Figure 6 and Table B5 demonstrate, the projections for the selected services in Philadelphia show that significant cost reductions could be realized in the two services where the City's wage rates were higher or the same as the private sector.<sup>3</sup> For the services for which City pay scales are below those paid by industry, reduced costs would also be realized but would be of a lesser magnitude.

Contracting out sanitation services would result in substantial cost reductions under both alternatives tested. If all of current sanitation services were contracted out to the private sector, the estimated private costs were approximately \$9.4 million to almost \$11 million (13 to 15 percent less) than the city's costs. (When the City considered contracting out sanitation and disposal for FY89, the city estimated savings of about \$32 million.)

For custodial services in the Department of Public Property, the private costs would be \$587,000 to \$677,000 less than the city's, or 23 to 27 percent below current costs, depending on the assumptions used.

In the models, private sector costs were still lower for the two services where private sector pay scales are higher than the city's. The cost differential ranged from \$199,000 (4 percent) to \$334,000 (7 percent) for building maintenance services and \$54,000 (1 percent) to \$256,000 (5 percent) for auto services. Depending on the profit margin

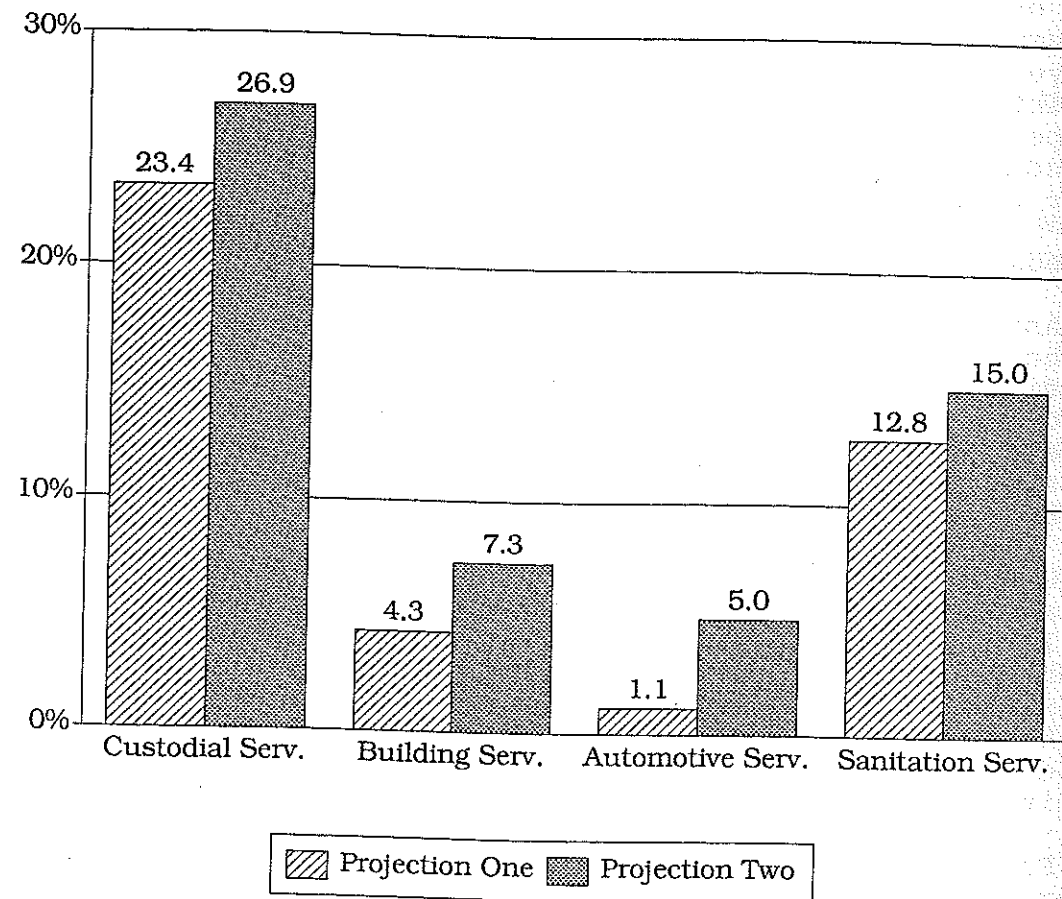
<sup>2</sup> U.S. Chamber of Commerce Research Center, *Employee Benefits, 1988*, Washington, DC, and Bureau of Labor Statistics, *Employer Cost For Employee Compensation - March 1989*, Washington, D.C.

<sup>3</sup> The projections were based on the assumption that all of the service was contracted out. In the most successful examples of contracting in other cities, only a portion of the service was contracted; the remainder continued to be provided by the city.



FIGURE 6

Percentage of Cost Reduction Due to Contracting Out  
of Selected Services, Projections One and Two  
Philadelphia, FY90



Source: Appendix A.

(a) Projection One assumes that the private sector will have ten percent fewer employees than the City and will incur the same non-personnel costs as the City.

(b) Projection Two assumes greater efficiency improvements on the part of the private sector: private non-personnel costs are assumed to decrease ten percent below the levels used in Projection One.

required by the private firm, the differential might or might not be translated into lower costs to the city.

The detailed computations for each of the four services are presented in Appendix A. In all cases, a most significant contributing factor is the expected lower private costs for employee benefits. As indicated in Figure 7, lower private sector benefits costs for sanitation services would account for almost half of the projected \$11 million cost differential under Projection Two. Lower benefit costs for the four services range from 34 percent to 70 percent of the total estimated reductions under Projection Two.

C. Implications for Other Services

These models indicate that the main variable for selecting potential subjects for contracting out is city pay scales as compared to community sector pay scales. A PEL analysis (Table B6) shows that for

- o non-professional and non-managerial jobs, the lower skilled the job, the more City pay exceeds the market,
- o white collar clerical positions, City pay generally exceeds the market,
- o skilled blue collar work, City pay scales are lower than the market.

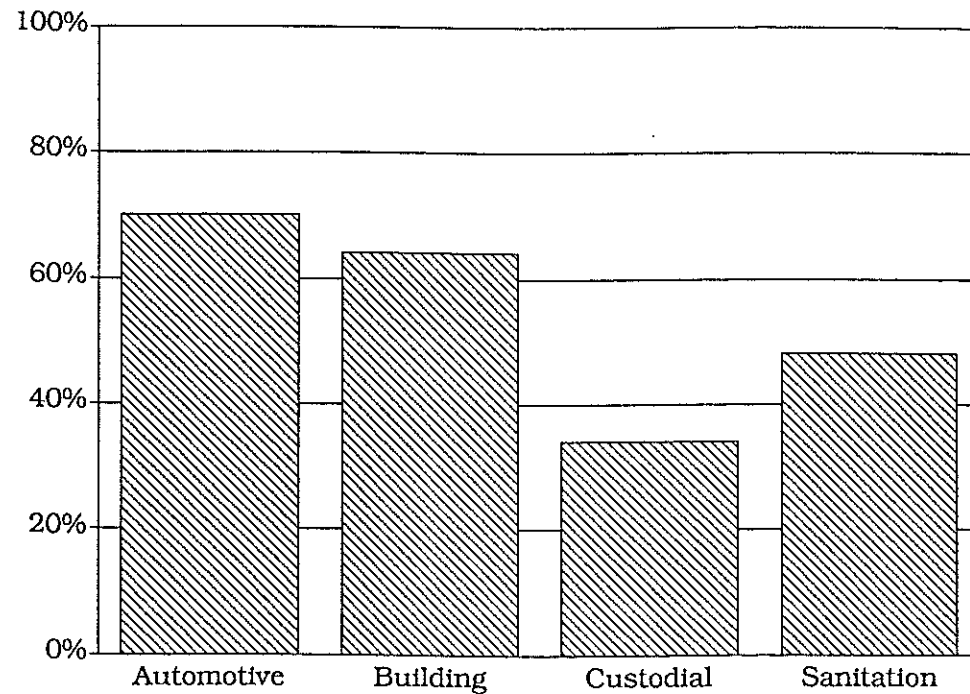
In addition to reviewing the four services tested in the models, the contracting out alternative should be reviewed for other major budget units or sub-units, with the cost reduction potential varying with the pay scale relationship.

Exhibit 1 lists service categories and City departments employing predominant job classes for which private sector Philadelphia job comparisons are available from the U.S. Department Labor. Service categories were included only when the City department employed a substantial number of employees in the designated job classes. (City departments generally utilize a mix of job categories, in most cases including jobs both with higher and lower pay than the private sector.)

Among budget units employing large number of workers receiving higher pay than their private sector counterparts are the food service operations of Riverview Home, Philadelphia Nursing Home, and the prisons. Guard operations in the Art Museum and various other city departments fall in this category, as do nursing support

FIGURE 7

Projected Benefit Cost Reductions for Selected Services as  
a Percentage of Total Projected Cost Differentials  
in Philadelphia, FY90



Source: Tables A1-c, A2-c, A3-c and A4-c.

a) Cost differentials attributed to benefit costs are based on Projection Two.

Exhibit 1.

Classification of City Service Categories  
By Relative Pay Scales for Main City Job Classes

CITY PAY-HIGH \*

Job Classes	Service Categories	Budget Units
Office Clerical	Clerical, Administrative Support Acctg, Data Entry, Secretarial	Various City Departments
Computer	Computer - Related	Philadelphia Computing Center
Guards	Facilities, Security	Art Museum Various City Departments
Custodial	Janitorial, cleaning	Various City Departments
Nursing Support	Practical Nurses, Aides	Philadelphia Nursing Home Riverview Home
Food Service	Food Service Workers, Cooks	Riverview Home Prison Operations Philadelphia Nursing Home

CITY PAY-LOW \*

Job Classes	Service Categories	Budget Units
Skilled Trades	Skilled Maintenance Carpenters Electricians, Powerplant Automotive, etc.	Stadium Complex Recreation Department (Maintenance Division) Prison Operations
Truck Drivers		Various City Departments

Appendix D provides the 1989 comparisons between City and private pay scales.

\* In relation to private sector jobs.

workers in the nursing home and Riverview, and custodial workers in various city departments. Clerical workers are also very highly paid relative to the private sector; however, they are scattered throughout the city, and do not predominate in many large budget units. Computer related jobs are relatively highly paid; these are found mainly in the Philadelphia Computing Center.

## Chapter V

### Summary of Major Findings, Conclusions and Recommendations

#### Major Findings and Conclusions

1. **Other local governments in U.S. contract out many functions handled by city employees in Philadelphia.**

Examples of contracting out are found for practically any local government function other than police. Most common are: solid waste collection, vehicle towing and storage and building/grounds maintenance. Others include administrative functions such as data processing and tax collection. However only a very small minority of governments contract for corrections and fire fighting.

2. **Other cities have had success in reducing costs by contracting out.**

There are many examples of governments reducing costs by contracting services formerly performed by city employees. According to a 1987 nationwide survey, the median cost savings reported were in the range of 10 percent to 19 percent. The most positive results occur among labor intensive services.

3. **Competition with contracted services has had a positive effect in improving productivity of city employees in several cities.**

Phoenix, Arizona, and Newark, New Jersey provide examples where contracting out part of a service has spurred the public sector to greatly improve its efficiency in order to remain competitive. The Phoenix public works department has decreased its costs for refuse collection to the extent that the city has won recent bids and replaced private collection. In Newark, the cost for the services that the city provides directly have been reduced substantially.

4. The following factors appear to be instrumental in determining the potential success of contracting out:

- a) Clearly defined conditions and expectations of contract performance.
- b) Accurate specifications of production output expectations and measures.
- c) Contract size which attracts firms that can benefit from economies of scale, but not so large that smaller firms cannot compete.
- d) Contracting out only part of the service area, to provide public-private competition.

5. For quality control of contracted service, formal interaction appears more effective than only monitoring performance.

Monitoring relies on observations by city agents; "interaction" is defined as inclusion of contractor representative in city agency policy and planning meetings, together with regular reports from contractor to agency officials in order to supplement monitoring.

6. Philadelphia has substantially increased the percent of its budget for contracting out activities over the past ten years.

The City contracts out almost 37 percent of its budget for a number of service categories, an increase of 15 percentage points over the FY80 figure of 22 percent.

7. The increase in Philadelphia's contracting is not attributable to substitution of contracting for direct city service, but mainly to increased expenditures and scope of services for functions traditionally contracted out.

Examples of greatly increased expenditures are for such mandated programs as mental health/mental retardation, and children and youth services, and for solid waste disposal.

8. Much of Philadelphia's contracting out is for health and human services, mainly with the nonprofit sector.

There is substantial contracting of the City's health and human services activities, mainly with nonprofit agencies, although some for-profit firms are also included. The largest contracting out with the private sector is for solid waste disposal.

9. The City's high costs for employee benefits as compared to those paid by private industry is a major factor in favor of expanding the city's contracting out.

In PEL models for comparing costs of city v. contracted operations, a most significant contributing factor to the estimated cost reductions is the lower private costs for employee benefits which supplement pay. On the average, private industry pays a substantially lower amount for pension, health and other benefits which supplement pay.

Additionally, the City's high percent (20 percent for District Council 33) of pay for time not worked as compared to the average in private industry (9.5 percent) lends support to the assumption that private firms could perform the services with fewer personnel.

10. PEL models indicate that the City could realize cost reductions by increasing its use of contracting out. The potential is highest for services in which the City's pay scales are higher than those of the private sector. However, cost savings potential exists even if city pay scales are the same or lower than the private sector.

In the models, the highest projected cost reductions range to almost 27% in custodial services--a field where city pay scales exceed the private sector

The models did find potentially lower costs for two services with skilled trades jobs where private pay rates exceeded city rates. The estimated reductions are 7.3 percent for building services and 5 percent for automotive services.

### Recommendations

1. The City should engage in a systematic review of all activities with the potential for initiating or increasing contracting out.

2. In reviewing services for increased contracting out, emphasis should be on activities in which the City's salary scales are higher than, or comparable to those paid by the private sector.

The analysis should include the following activities among others:

Art Museum--guard services.  
Philadelphia Nursing Home--all services.  
Riverview Home--all services.  
Streets Department--waste collection.  
Fairmount Park--grounds maintenance and landscaping.  
Recreation Department--grounds maintenance.  
Custodial services--various departments  
Phila. Computing Center--all services.

3. Given the fact that the City's current collective bargaining agreement with non-uniformed employees stipulates no layoffs until July 1992, the City should begin the planning and development activities usually associated with a successful contracting out policy. Activities should include:

a) Establishing specific and clearly defined conditions and expectations of contract performance.

b) Developing accurate specifications of production output expectations and measures.

c) Design of a management audit system to more fully evaluate the effectiveness of service delivery performance. This program should apply to current as well as future contracts.

4. Interaction between the City and its contractors should be an integral component of any contracting out process entered into by Philadelphia.

The literature strongly documents that continuous interaction between governmental agencies and contractors substantially enhances the prospect of successful implementation.

5. Where practical, the city should seek bids only for some segments of each of major services to be contracted.

The bid prices would then provide a standard of comparison for public performance in the non-bid segments. Also the city would be protected in case the bidder would fail to produce.

In both Phoenix, Arizona, and Newark, New Jersey, portions of the solid waste collection services were contracted out to private firms while the public sector was responsible for other segments. In both cases, the City workers' productivity improved considerably.

6. The City should also enter into the bidding process for major services, and should establish a special board to evaluate the public bid to ensure that all costs are included.

Phoenix provides an example of the city departments bidding against the private sector. To make sure that the deck is not stacked against the private firm, Phoenix has established a board to evaluate the public bid, particularly to make sure that it includes all indirect costs which may not be included in the budget of the department providing the service.

## APPENDIX A

### Detailed Computations For Contracting Out Four Services

This appendix provides the computations for the four models discussed in Chapter IV.

#### 1. Custodial Services

Table A1-a shows the estimated cost of custodial services in the City's Department of Public Property. Sixty people employed in the custodial services division currently clean the City's offices in the Municipal Services Building, City Hall, and the Concourse connecting the two buildings. The wages and salaries of these employees are \$1,178,079, as listed in the FY90 budget and benefits total \$443,370, or approximately 27 percent of total compensation. Other operating and equipment costs are \$881,032 and \$12,500 respectively. These costs do not include \$2,924,245 listed under "repair and maintenance" which applies to contracted repair, maintenance, and custodial services already contracted out for the Gallery Mall, Market Street East Station and Penn's Landing. The total cost for the service as it is currently performed is thus \$2,514,989.

Table A1-b provides projected cost breakdowns for personnel performing custodial services in the private sector. Wage expenditures have been estimated mainly reflecting pay rates published in the *Philadelphia Area Wage Survey, November 1988*, updated by the November 1989 survey to bring the figures to a July 1, 1989 level. The resulting cost projections for wages and benefits respectively are \$823,547 and \$210,485.

As Projection One (private sector pay and supplements) in Table A1-c shows, these figures are 30 percent lower than the City's for wages and 53 percent lower for benefits. The resulting difference between private and public sector total compensation is \$587,425, or 36 percent. With non-personnel and capital costs estimated to be the same for the private and public sectors, the total costs for private sector performance of custodial services amount to \$1,927,564. This figure is 23 percent less than the amount budgeted to the Department of Public Property to perform this service.

Projection Two combines the effects of the ten percent reduction in the labor force with a ten percent reduction in non-personnel and capital costs. This projection reveals cost reductions of \$676,779 (27 percent off the City budget.)

Table A1-a.  
Estimated Costs of Custodial Services in the Department of Public Property, Philadelphia, FY90

Cost Category	Costs (General Fund)
<b>1) DIRECT PERSONNEL COSTS</b>	
Straight Time Personnel Salaries	\$1,178,079
Overtime: Regular	50,708
Holiday	6,500
Shift differential	19,750
Provision for Pay Raise	24,543
<b>SUBTOTAL</b>	<b>\$1,279,580</b>
<b>2) FRINGE BENEFITS</b>	
Social Security (FICA)	\$89,298
Pensions (normal cost only)	78,861
Employee Welfare (includes medical, dental, life insurance, disability and workers compensation)	275,220
<b>SUBTOTAL</b>	<b>\$443,379</b>
<b>3) NONPERSONNEL COSTS</b>	
Purchase of Services (Class 200) a/	\$764,782
Materials and Supplies (Class 300)	116,250
Equipment (Class 400)	\$12,500
<b>SUBTOTAL</b>	<b>\$893,532</b>
<b>TOTAL b/</b>	<b>\$2,514,990</b>

Sources: City of Philadelphia, "The Mayor's Operating Budget for Fiscal 1990," Section 46 for direct personnel costs and indirect costs, and Director of Accounting, "Fringe Benefits Costs - Fiscal Year Ended June 30, 1990" (April 9, 1990)

a/ Excludes \$2,924,245 for contracted repair, maintenance, and custodial services provided for the Gallery Mall, Market Street East Station and Penn's Landing

b/ Excluding overtime and holiday pay, shift differentials and provisions for pay raises.

Table A1-b.  
Projected Private Sector Personnel Costs for Performance of Custodial Services (now performed by Department of Public Property) - Philadelphia, FY90

Title	Wage Source (a)	Hourly Wage	Number of Workers	Wage Expenditures	Percent of Wages Spent on Benefits	Cost of Benefits
Building Operations Manager	M	14.77	1	30,848	17.3	5,337
Custodial Service Superintendant	M	17.08	1	35,658	17.3	6,169
Custodial Work Crew Chief	S	9.25	5	96,545	26.6	25,681
Custodial Work Supervisor I	S	9.25	4	77,236	26.6	20,545
Custodial Worker I	A	6.24	31	403,956	26.6	107,452
Custodial Worker II	S	7.18	4	59,934	26.6	15,942
Domestic Worker	A	6.24	4	52,123	26.6	13,865
Exterminator	M	9.80	1	20,460	26.6	5,442
General Departmental Worker	A	6.79	6	60,408	21.9	13,229
Physical Maintenance Worker	A	8.68	2	36,245	25.2	9,134
Window Washer I	M	9.07	1	18,931	26.6	5,036
Window Washer II	M	10.88	1	22,709	26.6	6,041
			<b>60</b>	<b>\$915,052</b>		<b>\$233,872</b>

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Area Wage Survey: Philadelphia, PA-NJ Metropolitan Area November, 1988," updated by the November 1989 survey "Employer Costs for Employee Compensation," March, 1989 Table 9. City of Philadelphia FY90 Budget, vol. II, s.46, p.80.

(a) M = Managerial and other City wages; A = Area Wage Survey; S = Supervisory wages (see "methodology" in chapter IV for further explanation of data sources)

Table A1-c.  
Projections Comparing Public and Private Sector Costs to Perform Custodial Services  
in the Department of Public Property, Philadelphia FY90

	Projection One(a)				Projection Two(b)		
	FY90 City	Private	Difference (Private to City)		Private	Difference (Private to City)	
			Amount	Percent		Amount	Percent
Number of Employees	60	54	(6)	(10.0)	54	(6)	(10.0)
Wages/Salaries (\$)	1,178,078	823,547	(354,531)	(30.1)	823,547	(354,531)	(30.1)
Benefits (\$)	443,379	210,485	(232,894)	(52.5)	210,485	(232,894)	(52.5)
Total Compensation (\$)	1,621,457	1,034,032	(587,425)	(36.2)	1,034,032	(587,425)	(36.2)
Non-personnel Costs (\$)	881,032	881,032	0	0.0	792,929	(88,103)	(10.0)
Equipment Costs (\$)	12,500	12,500	0	0.0	11,250	(1,250)	(10.0)
Total Budget*:	\$2,514,989	\$1,927,564	(\$587,425)	(23.4)	\$1,838,210	(\$676,779)	(26.9)

\*Excluding overtime and holiday pay and shift differential.

(a) Projection One assumes that the private sector will incur the same non-personnel and equipment costs as the City. Wages and benefits are based on figures from the Department of Labor, Bureau of Labor Statistics, "Area Wage Survey" for the Philadelphia region November 1988, updated by the November 1989 survey, and on the "Employment Cost Index," March 1989, pp.48-52. The number of private workers is assumed to decrease by 10 percent reflecting less private sector pay for time not worked, as well as taking into account possible other efficiencies.

(b) Projection Two assumes greater efficiency improvements on the part of the private sector: private non-personnel costs and equipment costs, are both assumed to decrease 10 percent below the standard levels used in projection One.

## 2. Building Services

Table A2-a illustrates the City's costs for building services in the City's Department of Public Property. The Building Services Division and its 103 employees are responsible for maintaining heating, air conditioning, plumbing, electrical, and various other systems throughout City Hall, the Municipal Services Building, and police and fire stations throughout the City.

The total cost for the service as listed in the FY90 budget is \$4,601,943, excluding provisions for overtime, pay raises, and shift differentials. Wages and salaries comprise \$2,431,439 of the resulting costs, benefits total \$819,525, non-personnel costs are \$1,307,300, and equipment costs are \$43,679.

Projected private sector personnel costs for 103 comparable building services workers are depicted in Tables A2-b and A2-c. Assuming that non-personnel costs and equipment costs will be equal in both the public and private sectors, the total cost for private sector performance totals \$4,402,795, or 4 percent less than the public sector's cost of \$4,601,943.

Projection Two estimates a 7 percent cost reduction of \$334,246.

## 3. Automotive Services

The Automotive Services Division of the Department of Public Property employs 96 people and has a total budget of \$5,098,280 (Table A3-a). This figure does not include an additional \$25,958,626 which is spent leasing and purchasing vehicles to serve various city departments, nor does it include fuel costs. Wages and salaries total \$2,308,543 (again excluding overtime, holiday and shift differential pay for comparative purposes), while benefits cost \$769,873. Non-personnel costs total \$1,995,920, while equipment costs amount to \$23,944.

Projection One results in a private sector budget figure that is slightly below the public sector FY90 total. The private sector budget, under this projection is \$53,666 (1 percent) less than the public sector's budget as shown in Tables A3-b and A3-c.

Under Projection Two, estimated cost reductions of 5 percent or \$255,653 are projected.



Table A2-a.  
Estimated Costs of Building Services in the Department of Public Property,  
Philadelphia, FY90.

Cost Category	Costs General Fund
<b>1) DIRECT PERSONNEL COSTS</b>	
Straight Time Personnel Salaries	\$2,431,439
Overtime: Regular	198,447
Holiday	21,447
Shift differential	27,889
Provision for Pay Raise	50,665
<b>SUBTOTAL</b>	<b>\$2,729,887</b>
<b>2) FRINGE BENEFITS</b>	
Social Security (FICA)	\$184,303
Pensions (normal costs only)	162,761
Employee Welfare (includes medical, dental, life insurance, disability and workers compensation)	472,461
<b>SUBTOTAL</b>	<b>\$819,525</b>
<b>3) NONPERSONNEL COSTS</b>	
Purchase of Services (Class 200)	\$645,000
Maintenance and Repairs (Class 300)	662,300
Equipment (Class 400)	43,679
<b>SUBTOTAL</b>	<b>\$1,350,979</b>
<b>TOTAL a/</b>	<b>\$4,601,943</b>

Sources: City of Philadelphia, "The Mayor's Operating Budget for Fiscal 1990," Section 46 for direct personnel costs and indirect costs, and Director of Accounting, "Fringe Benefits Costs - Fiscal Year Ended June 30, 1990" (April 9, 1990)

a/ Excluding overtime and holiday pay, shift differentials and provisions for pay raises.

Table A2-b.  
Projected Private Sector Personnel Costs for Performance of Building Services  
in the Department of Public Property, Philadelphia, FY90

Title	Type(a)	Hourly Wage	Number of Workers	Wage Expenditures	Percent of Wages Spent on Benefits	Cost of Benefits
Account Clerk	A	8.04	2	33,557	21.9	7,349
Administrative Officer	M	15.17	1	31,674	21.9	6,937
Brick Mason	M	10.79	2	45,062	25.2	11,356
Brick Mason Group Leader	M	13.34	1	27,857	25.9	7,215
Building Service Manager	M	17.73	1	37,014	17.3	6,403
Building Services Administrator	M	24.54	1	51,233	17.3	8,863
Carpenter Group Leader	S	16.18	1	33,780	25.2	8,512
Carpenters	A	14.60	8	243,897	25.2	61,462
Cement Finisher	M	11.25	2	46,985	25.2	11,840
Clerk 111	M	10.23	1	21,369	21.9	4,680
Closed Circuit TV Monitor	A	5.27	1	11,003	20	2,201
Electrical Group Leader	S	16.39	1	34,228	25.2	8,626
Electricians	A	14.01	7	204,784	25.2	51,606
Elevator Maintenance Supervisor	M	13.33	1	27,842	25.2	7,016
Elevator Operator	M	9.11	3	57,060	20	11,412
Elevator Repair Worker	M	12.62	1	26,357	25.2	6,642
Elevator Starter	M	9.94	2	41,520	20	8,304
Equipment Operator	M	11.00	3	68,889	27.8	19,151
Laborer	A	10.61	3	66,470	26.6	17,681
Locksmith	M	12.62	1	26,351	25.2	6,640
Maintenance Group Leader	S	16.37	1	34,185	25.2	8,615
Maintenance Mechanic	A	13.55	6	169,793	25.2	42,788
Municipal Guard	A	5.27	1	11,003	20	2,201
Painter	A	13.52	8	225,881	25.2	56,922
Painting Group Leader	S	14.98	1	31,285	25.2	7,884
Physical Maintenance Worker	A	8.68	4	72,489	25.2	18,267
Plasterer	M	10.99	2	45,900	25.2	11,567
Plumber	A	14.86	6	186,110	25.2	46,900
Refrigeration Mechanic	M	11.74	3	73,521	25.2	18,527
Refrigeration Mechanic Group Leader	M	13.10	1	27,357	25.2	6,894
Rigger-Steepjack	M	11.37	2	47,464	25.2	11,961
Roofer	M	11.16	3	69,929	25.2	17,622
Roofer Group Leader	M	13.01	1	27,157	25.2	6,844
Trade Helper	A	13.55	7	198,092	26.6	52,692
Upholsterer	M	11.61	2	48,492	25.2	12,220
Utility Equipment Group Leader	M	14.76	3	92,448	25.2	23,297
Utility Equipment Mechanic	A	12.03	8	200,896	25.2	50,626
Word Processing Specialist	A	8.74	1	18,255	21.9	3,998
			<b>103</b>	<b>\$2,717,188</b>		<b>\$673,719</b>

Sources: U.S. Department of Labor, Bureau of Labor Statistics, "Area Wage Survey: Philadelphia, PA-NJ Metropolitan Area November, 1988" updated by the November 1989 survey, "Employer Costs for Employee Compensation," March, 1989 Table 9. City of Philadelphia FY90 Budget, vol II, s.46, p.44.

(a) M = Managerial and other City wages; A = Area Wage Survey; S = Supervisory wages (see "methodology" in chapter IV for further explanation of data sources)

Table A2-c.

Projections Comparing Public and Private Sector Costs to Perform Building Services in Philadelphia in the Department of Public Property, Philadelphia, FY90

	FY90 City	Projection One(a)		Projection Two(b)			
		Private	Difference (Private to City)		Private	Difference (Private to City)	
			Amount	Percent		Amount	Percent
# of Workers	103	93	(10)	(10.0)	93	(10)	(10.0)
Wages/Salaries (\$)	2,431,439	2,445,469	14,030	0.6	2,445,469	14,030	0.6
Benefits (\$)	819,525	606,347	(213,178)	(26.0)	606,347	(213,178)	(26.0)
Total Compensation (\$)	3,250,964	3,051,816	(199,148)	(6.1)	3,051,816	(199,148)	(6.1)
Non-personnel Costs (\$)	1,307,300	1,307,300	0	0.0	1,176,570	(130,730)	(10.0)
Equipment Costs (\$)	43,679	43,679	0	0.0	39,311	(4,368)	(10.0)
<b>Total Budget*:</b>	<b>\$4,601,943</b>	<b>\$4,402,795</b>	<b>(\$199,148)</b>	<b>(4.3)</b>	<b>\$4,267,697</b>	<b>(\$334,246)</b>	<b>(7.3)</b>

\*Excluding overtime and holiday pay and shift differential.

(a) Projection One assumes that the private sector will incur the same non-personnel and equipment costs as the City. Wages and benefits are based on figures from the Department of Labor, Bureau of Labor Statistics, "Area Wage Survey" for the Philadelphia region November 1988, updated by the November 1989 survey, and on the "Employment Cost Index," March 1989, pp.48-52. The number of private workers is assumed to decrease by 10 percent reflecting less private sector pay for time not worked, as well as taking into account possible other efficiencies.

(b) Projection Two assumes greater efficiency improvements on the part of the private sector: private non-personnel costs and equipment costs, are both assumed to decrease 10 percent below the standard levels used in projection One.

Table A2-a.

Estimated Costs of Automotive Services in the Department of Public Property, Philadelphia, FY90

Cost Category	Costs General Fund
<b>1) DIRECT PERSONNEL COSTS</b>	
Straight Time Personnel Salaries	\$2,308,543
Overtime: Regular	\$361,404
Holiday	23,884
Shift Differential	4,952
Provision for Pay Raise	48,095
<b>SUBTOTAL</b>	<b>\$2,746,878</b>
<b>2) FRINGE BENEFITS</b>	
Social Security (FICA)	\$174,988
Pensions (normal costs only)	154,534
Employee Welfare (includes medical, dental, life insurance, disability and workers compensation)	440,352
<b>SUBTOTAL</b>	<b>\$769,873</b>
<b>3) NONPERSONNEL COSTS</b>	
Purchase of Services (Class 200)	\$470,282
Materials and Supplies (Class 300) a/	1,525,638
Equipment (Class 400)	23,944
<b>SUBTOTAL</b>	<b>\$2,019,864</b>
<b>TOTAL b/</b>	<b>\$5,098,280</b>

Source: City of Philadelphia, "The Mayor's Operating Budget for Fiscal 1990," Section 46 for direct personnel costs and indirect costs, and Director of Accounting, "Fringe Benefits Costs - Fiscal Year Ended June 30, 1990" (April 9, 1990)

a/ Excludes costs for fuel.

b/ Excluding overtime and holiday pay, shift differential and provisions for pay raises.

Table A3-b.  
Projected Private Sector Personnel Costs for Performance of Automotive Services  
in the Department of Public Property, Philadelphia, FY90

Title	Type(a)	Hourly Wage	Number of Workers	Wage Expenditures	Percent of Wages Spent on Benefits	Cost of Benefits
Account Clerk	A	8.03	1	16,773	21.90	3,678
Auto Body Repair Group Leader	S	16.15	1	33,729	25.20	8,500
Auto Body Repair Worker	A	14.17	9	266,353	25.20	67,121
Auto Equipment Inspector Group Leader	M	13.04	1	27,236	25.20	6,863
Automotive Driver	M	10.28	3	64,424	27.60	17,910
Automotive Electrician	A	14.01	2	58,510	25.20	14,744
Automotive Equipment Inspector	M	12.16	5	126,930	25.20	31,988
Automotive Maintenance Supervisor	M	17.03	2	71,116	17.30	12,303
Automotive Mechanic	A	14.17	34	1,006,224	25.20	253,568
Automotive Painter	A	13.52	4	112,940	25.20	28,461
Automotive Service Worker	A	9.10	2	38,014	25.20	9,579
Automotive Services Director	M	28.31	1	59,110	17.30	10,228
Automotive Shop Group Leader	S	16.15	8	269,833	25.20	67,998
Automotive Stores Manager	M	16.60	1	34,658	17.30	5,996
Clerical Supervisor	M	10.65	1	22,227	21.90	4,868
Clerk III	M	11.20	1	23,392	21.90	5,123
Clerk Stenographer II	A	12.48	1	26,051	21.90	5,705
Clerk Typist II	A	8.84	3	55,346	21.90	12,121
Data Processing Operations Supervisor	M	11.81	1	24,663	17.30	4,267
Inventory Control Technician	M	10.95	1	22,860	21.90	5,008
Machinist	A	12.84	1	26,812	25.20	6,767
Sign Painter	A	13.52	1	28,235	25.20	7,115
Stores Manager	M	12.98	2	54,108	17.30	9,361
Stores Supervisor	M	10.45	1	21,827	17.30	3,776
Stores Worker	A	10.61	2	44,313	26.60	11,767
Trades Helper	A	11.82	4	98,749	25.20	24,885
Upholsterer	M	11.41	1	23,829	25.20	6,005
Welder	M	10.88	2	45,420	25.20	11,448
			96	\$2,703,682		\$657,151

Sources: U.S. Department of Labor, Bureau of Labor Statistics, "Area Wage Survey: Philadelphia, PA-NJ Metropolitan Area November, 1988" updated by the November 1989 survey, "Employer Costs for Employee Compensation," March, 1989 Table 9. City of Philadelphia FY90 Budget, vol. II, s.46, p.52

(a) M = Managerial and other City wages; A = Area Wage Survey; S = Supervisory wages. [see "methodology" in chapter IV for further explanation of data sources]

Table A3-c.  
Projections Comparing Public and Private Sector Costs to Perform Auto Services  
in the Department of Public Property, Philadelphia, FY90

	FY90 City	Projection One(a)		Projection Two(b)		
		Private	Difference (Private to City) Amount Percent	Private	Difference (Private to City) Amount Percent	
# of Workers	96	86	(10) (10.0)	86	(10) (10.0)	
Wages/Salaries (\$)	2,308,543	2,433,314	124,771 5.4	2,433,314	124,771 5.4	
Benefits (\$)	769,873	591,436	(178,437) (23.2)	591,436	(178,437) (23.2)	
Total Compensation (\$)	3,078,416	3,024,750	(53,666) (1.7)	3,024,750	(53,666) (1.7)	
Non-personnel Costs (\$) **	1,995,920	1,995,920	0 0.0	1,796,328	(199,592) (10.0)	
Equipment Costs (\$)	23,944	23,944	0 0.0	21,550	(2,394) (10.0)	
Total Budget*:	\$5,098,280	\$5,044,614	(\$53,666) (1.1)	\$4,842,627	(\$255,653) (5.0)	

\*Excluding overtime and holiday pay and shift differential.

\*\* Excludes expenditures for fuel.

(a) Projection One assumes that the private sector will incur the same non-personnel and capital costs as the City. Wages and benefits are based on figures from the Department of Labor, Bureau of Labor Statistics, "Area Wage Survey" for the Philadelphia region November 1988, updated by the November 1989 survey, and on the Employment Cost Index, March 1989, pp.48-52. The number of private workers is assumed to decrease by 10 percent reflecting less private sector pay incurred for time not worked, as well taking into account possible other efficiencies.

(b) Projection Two assumes greater efficiency improvements on the part of the private sector: private non-personnel and equipment costs are both assumed to decrease 10 percent below the standard levels used in projection One.

#### 4. Sanitation

Tables A4-a and A4-b contain the costs of performing sanitation services in the City of Philadelphia. The total budgeted amount for this service in FY90 is \$73,125,450, excluding contracted waste disposal. The Sanitation Division employs 2,021 people who administer and carry out such services as trash collection, street cleaning, trash disposal, automotive fleet maintenance, recycling, property maintenance, and enforcement of sanitation laws. Personnel costs total \$41,870,752 for wages and salaries (excluding overtime and shift differentials) and \$15,246,958 for benefits. Non-personnel costs and equipment costs for FY90 measure \$15,873,024 and \$134,716 respectively.

Under Projection One in Table A4-c, the total estimated budget under contracting out is \$63,743,072 - a reduction of \$9,382,378 or 13 percent.

For Projection Two, the estimated cost reduction is 15 percent (\$10,983,152).

Table A4-a.  
Estimated Costs of Sanitation Services in the Division of Sanitation, Dept. of Streets, Philadelphia, FY90

Cost Category	Costs
	General Fund
<b>1) DIRECT PERSONNEL COSTS</b>	
Straight Time Personnel Salaries	\$41,870,752
Overtime: Regular	\$12,000,000
Provision for Pay Raise	1,129,000
Shift Differential	400,000
<b>SUBTOTAL</b>	<b>\$55,399,812</b>
<b>2) FRINGE BENEFITS</b>	
Social Security (FICA)	\$3,173,803
Pensions (normal costs only)	2,802,828
Employee Welfare (includes medical, dental, life insurance, disability and workers compensation)	9,270,327
<b>SUBTOTAL</b>	<b>\$15,246,958</b>
<b>3) NON-PERSONNEL COSTS</b>	
Purchase of Services (Class 200) a/	\$7,491,740
Materials and Supplies (Class 300)	8,381,284
Equipment (Class 400)	134,716
<b>SUBTOTAL</b>	<b>\$16,007,740</b>
<b>TOTAL b/</b>	<b>\$73,125,450</b>

Source: City of Philadelphia, "The Mayor's Operating Budget for Fiscal 1990," Section 46 for direct personnel costs and indirect costs, and Director of Accounting, "Fringe Benefits Costs - Fiscal Year Ended June 30, 1990" (April 9, 1990)

a/ Does not include \$56,850,000 for refuse, garbage silt, and sludge removal.

b/ Excluding overtime and holiday pay, shift differential and provisions for pay raises.

Table A4-b.  
Projected Private Sector Personnel Costs for Performance of Sanitation Services in Philadelphia, FY90

Title	Type(a)	Hourly Wage	Number of Workers	Wage Expenditures	Percent of Wage Spent on Benefits	Cost of Benefits
Account Clerk	A	8.03	1	16,773	21.9	3,673
Administrative Analyst I	M	13.19	1	27,533	21.9	6,030
Administrative Officer	M	17.08	1	35,658	21.9	7,803
Administrative Technician	M	11.76	1	24,565	21.9	5,380
Asst. Chief Sanitation Operations	M	20.94	2	87,445	17.3	15,129
Auto Body Repair Worker	A	14.17	1	29,595	25.2	7,458
Auto Maintenance Supervisor	S	18.42	3	115,389	25.2	29,076
Auto Service Worker	A	8.81	21	386,459	25.2	97,388
Auto Shop Group Leader	M	13.10	17	464,837	25.2	117,139
Automotive Mechanic	A	14.17	63	1,864,473	25.2	469,847
Brick Mason	M	11.56	2	48,258	25.2	12,161
Bridge Crane Operator	M	12.54	8	209,518	27.8	58,246
Building Maintenance Superintendent	M	16.00	2	66,892	17.3	11,569
Carpenter	A	14.60	1	30,487	25.2	7,683
Chief Sanitation Engineer	M	26.85	1	56,059	17.3	9,698
Clean Block Administrator	M	14.08	1	29,389	17.3	5,084
Clean Block Assistant Administrator	M	10.91	1	22,780	17.3	3,941
Clean Block Representative	M	10.91	9	205,091	21.9	44,915
Clerical Assistant	A	5.43	1	11,340	21.9	2,488
Clerk I	A	5.43	8	90,718	21.9	19,867
Clerk II	A	6.17	13	167,519	21.9	36,687
Clerk III	M	10.47	2	43,737	21.9	9,576
Clerk Steno I	A	11.27	1	23,539	21.9	5,155
Clerk Steno II	A	12.48	2	52,103	21.9	11,410
Clerk Steno III	A	12.48	1	26,051	21.9	5,705
Clerk Typist I	A	6.34	3	39,689	21.9	8,692
Clerk Typist II	A	8.84	15	276,728	21.9	60,604
Construction Project Technician I	M	13.06	1	27,261	25.2	6,870
Customer Service Representative	M	8.49	6	106,374	21.9	23,296
Deputy Commissioner	M	31.13	1	65,000	17.3	12,740
Electrician	A	14.01	4	117,020	25.2	29,489
Engineering Technician II	M	11.99	1	25,026	18.8	4,705
Equipment Operator I	M	10.60	247	5,466,802	27.8	1,519,771
Equipment Operator II	M	10.58	153	3,379,929	27.8	939,620
Garbage Collection Supervisor	M	16.79	1	35,058	17.3	6,065
Heavy Duty Wrecker Operator	A	13.91	6	174,275	27.8	48,448
Heavy Equipment Operator II	M	13.87	3	88,882	27.8	24,553
Labor Crew Chief	M	11.30	21	495,618	27.8	137,782
Laborer	M	8.97	877	16,425,649	27.8	4,586,930
Machinist	A	13.93	1	29,085	25.2	7,329
Maintenance Group Leader	S	17.96	1	37,491	25.2	9,448
Maintenance Mechanic I	A	13.35	3	83,622	25.2	21,073
Maintenance Mechanic II	S	14.10	5	147,235	25.2	37,103

(continued on the next page)

Table A4-b (cont.).  
Projected Private Sector Personnel Costs for Performance of Sanitation Services in Philadelphia, FY90

Title	Type(a)	Hourly Wage	Number of Workers	Wage Expenditures	Percent of Wage Spent on Benefits	Cost of Benefits
Painter	A	13.52	2	56,470	25.2	14,230
Physical Maintenance Worker	A	8.81	315	5,796,885	25.2	1,460,815
Plant Helper I	A	11.82	8	197,497	25.9	51,152
Plumber	A	14.86	3	93,055	25.2	23,450
Recycling Program Administrator	M	18.38	1	38,383	17.3	6,640
Recycling Program Community Organizer	M	10.47	1	21,671	21.9	4,790
Recycling Program Specialist I	M	10.66	2	44,518	21.9	9,749
Recycling Program Specialist II	M	13.28	2	55,453	21.9	12,144
Recycling Program Trainee	M	9.02	1	18,838	21.9	4,126
Recycling Project Supervisor	M	18.45	2	77,058	17.3	13,331
Roofer	M	11.51	1	24,029	25.2	6,055
Sanitation Fleet Superintendent	M	18.87	1	39,408	17.3	6,818
Sanitation Operations Administrator	M	25.67	1	53,600	17.3	9,273
Sanitation Program Coordinator	M	22.76	1	47,518	17.3	8,221
Solid Waste Disposal Manager	M	24.54	1	51,233	17.3	8,863
Solid Waste Transfer Plant, Crew Chief	M	11.91	2	49,726	17.3	8,603
Solid Waste Transfer Plant, Supt.	M	15.89	2	65,516	17.3	11,334
Solid Waste Transfer Plant Supv.	M	13.91	2	58,100	17.3	10,051
Staff Engineer I	M	18.58	2	77,593	18.1	14,044
Staff Engineer II	M	24.35	1	50,833	18.1	9,201
Stack Handler	A	9.41	2	39,308	26.6	10,456
Stores Manager	M	12.86	2	53,714	17.3	9,293
Stores Supervisor	S	11.95	1	24,945	26.6	6,635
Stores Worker	A	10.61	2	44,313	26.6	11,787
Tractor Trailer Operator	A	13.29	53	1,471,092	27.8	408,964
Trades Helper	A	11.82	32	789,988	25.2	199,077
Training Assistant I	M	12.67	1	26,456	21.9	5,794
Waste Collection Supervisor I	M	11.19	34	794,400	17.3	137,431
Waste Collection Supervisor II	M	15.99	10	333,871	17.3	57,760
Watch Attendant	A	5.27	13	143,037	20	28,607
Welder	M	11.49	7	168,003	25.2	42,337
			2021	\$41,961,603		\$11,077,655

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Area Wage Survey: Philadelphia, PA-NJ Metropolitan Area November, 1988" updated by the November 1989 survey, "Employer Costs for Employee Compensation," March, 1989 Table 9. City of Philadelphia FY90 Budget, vol.II, s.37, p.54-57.

(a) M = Managerial and other City wages, A = Area Wage Survey; S = Supervisory wages (see "methodology" in chapter IV for further explanation of data sources)

Table A4-c.  
Projections Comparing Public and Private Sector Costs to Perform Sanitation Services in Philadelphia, FY90

	Projection One(a)				Projection Two(b)		
	FY90 City	Private	Difference (Private to City)		Private	Difference (Private to City)	
			Amount	Percent		Amount	Percent
# of Workers	2,021	1,819	(202)	(10.0)	1,819	(202)	(10.0)
Wages/Salaries (\$)	41,870,752	37,765,443	(4,105,309)	(9.8)	37,765,443	(4,105,309)	(9.8)
Benefits (\$)	15,246,958	9,969,890	(5,277,069)	(34.6)	9,969,890	(5,277,069)	(34.6)
Total Compensation (\$)	57,117,710	47,735,332	(9,382,378)	(16.4)	47,735,332	(9,382,378)	(16.4)
Non-personnel Costs (\$)	15,873,024	15,873,024	0	0.0	14,285,722	(1,587,302)	(10.0)
Equipment Costs (\$)	134,716	134,716	0	0.0	121,244	(13,472)	(10.0)
<b>Total Budget*:</b>	<b>\$73,125,450</b>	<b>\$63,743,072</b>	<b>(\$9,382,378)</b>	<b>(12.8)</b>	<b>\$62,142,298</b>	<b>(\$10,983,152)</b>	<b>(16.0)</b>

\*Excluding overtime and holiday pay and shift differential.

(a) Projection One assumes that the private sector will incur the same non-personnel and equipment costs as the City. Wages and benefits are based on figures from the Department of Labor, Bureau of Labor Statistics, "Area Wage Survey" for the Philadelphia region November 1988, updated by the November 1989 survey, and on the "Employment Cost Index," March 1989, pp.48-52. The number of private workers is assumed to decrease by 10 percent reflecting less private sector pay for time not worked, as well as taking into account possible other efficiencies.

(b) Projection Two assumes greater efficiency improvements on the part of the private sector: private non-personnel costs and equipment costs, are both assumed to decrease 10 percent below the standard levels used in projection One.

Table B1.

Philadelphia Contracts, by Selected Service Categories, Percentage of Expenditures FY80 v. FY90

Service	FY80			FY90		
	General Fund Budget Total (000's)	Contract Expenditures* (000's)	Percent Total Budget Contracted	General Fund Budget Total (000's)	Contract Expenditures* (000's)	Percent Total Budget Contracted
<b>ADMINISTRATION (TOTAL)</b>	\$11,043	\$1,745	15.8%	\$21,479	\$2,177	10.1%
Accounting	1,531	0	0.0	2,814	44	1.6
Data Processing	3,977	625	15.7	9,767	1,251	12.8
Legal services	5,535	1,120	20.2	8,898	882	9.9
<b>HEALTH CARE (TOTAL)</b>	\$75,727	\$46,889	61.9%	\$166,951	\$133,186	79.8%
Community Health	19,571	6,217	31.8	29,143	14,467	49.6
Mental Health/Retardation	43,220	39,841	92.2	121,904	116,628	95.8
Nursing Home	12,936	831	6.4	15,904	1,891	11.9
<b>HUMAN SERVICES (TOTAL)</b>	\$97,115	\$56,295	58.0%	\$229,917	\$128,670	56.0%
Child and Youth/Delinq. Serv.	69,540	56,078	80.6	144,277	114,355	79.3
Elderly (Riverview)	3,044	17	0.6	3,973	93	2.3
Homeless	—	—	—	14,959	11,045	73.8
Prisons	24,531	200	0.8	66,708	3,177	4.8
<b>STREETS (TOTAL) **</b>	\$55,735	\$5,082	9.1%	\$103,503	\$62,143	60.0%
Highway Div. (incl. maint.)	15,330	474	3.1	6,294	1,274	20.2
Street Lighting **	3,152	1,854	58.8	4,009	2,545	63.5
Waste Collection	29,332	1,648	5.6	33,909	2,006	5.9
Waste Disposal	7,921	1,106	14.0	59,291	56,318	95.0
<b>PARKS (TOTAL)</b>	\$5,664	\$850	15.0%	\$7,655	\$223	2.9%
Administration	1,167	17	1.5	1,718	201	11.7
Landscape Management	4,497	833	18.5	5,937	22	0.4
<b>PUBLIC PROPERTY (TOTAL) **</b>	\$11,912	\$1,276	10.7%	\$18,655	\$4,734	25.4%
Building/Janitorial	5,497	998	18.2	9,209	4,286	46.5
Automotive Services **	6,415	278	4.3	9,446	448	4.7
<b>PUBLIC SAFETY (TOTAL)</b>	\$249,061	\$874	0.4%	\$343,741	\$1,978	0.6%
Emergency Medical Services	301	0	0.0	9,862	654	6.6
Fire Fighting	59,998	115	0.2	90,108	137	0.2
Fire Prevention	638	5	0.8	946	12	1.3
Police Operations	160,976	283	0.2	211,292	869	0.4
Police Services	27,148	471	1.7	31,533	306	1.0
<b>RECREATION (TOTAL)</b>	\$16,015	\$480	3.0%	\$23,609	\$3,823	16.2
Maintenance	3,875	225	5.8	7,135	296	4.1
Programs	12,140	255	2.1	13,443	2,104	15.7
Stadium Complex	—	—	—	3,031	1,423	46.9
<b>Total Selected Services</b>	<b>\$522,272</b>	<b>\$113,491</b>	<b>21.7%</b>	<b>\$915,510</b>	<b>\$336,934</b>	<b>36.8%</b>

Source: City of Philadelphia, "The Mayor's Operating Budgets for Fiscal 1982, and Fiscal 1990"

\* Contract expenditures were defined as expenditures for professional, consultant or specialized services (Class 250), repair and maintenance expenditures (Class 260), and payments for care of individuals (Class 290). Other Class 200 expenditures directly related to the provision of services were also included.

\*\* For purposes of comparison, electrical current expenditures have been excluded from the general fund budget for Street Lighting and lease/purchase vehicle expenditures have been excluded from the total budgeted for Automotive Services.

Table B2.  
Selected Contracts as Percentage of Departmental Budgets  
(Excluding departments with no personal services or budgets of less than \$1 million).  
Mayor's Proposed Operating Budget, FY90

Department:	Total General Fund		
	Selected Contracts * (\$000's)	Adjusted Budget Total (\$000's)	Contracts as Percentage of Total
2.19 Department of Human Services	119,142	154,926	76.9
2.21 Dept. of Human Services (Homeless)	11,045	14,959	73.8
2.11 Department of Public Health	154,771	210,383	73.6
2.09 Department of Streets **	64,360	140,308	45.9
2.48 City Representative & Dir. of Commerce ***	1,470	3,372	43.6
2.29 Director of Finance	4,230	9,745	43.4
2.61 City Commissioners	1,817	7,178	25.3
2.63 Municipal Court	2,098	10,249	20.5
2.12 Department of Recreation	3,898	26,026	15.0
2.50 City Planning Commission	268	1,936	13.8
2.02 Philadelphia Computing Center	1,251	9,767	12.8
2.64 Court of Common Pleas #	8,980	73,847	12.2
2.49 Law Department - Legal Services	982	8,898	11.0
2.43 Department of Revenue	1,507	16,841	8.9
2.55 Auditing Department	396	4,847	8.2
2.01 Council ##	570	7,382	7.7
2.17 Department of Public Property	6,743	93,630	7.2
2.22 Dept. of Licenses & Inspections	1,349	19,331	7.0
2.03 Mayor	141	2,136	6.6
2.56 Board of Revision of Taxes	342	6,992	4.9
2.54 Personnel Director	223	4,570	4.9
2.20 Dept. of Human Services (Phila. Prisons)	3,177	66,708	4.8
2.51 Free Library of Philadelphia	1,054	25,228	4.2
2.62 Traffic Court	235	6,027	3.9
2.13 Dept. of Recreation (Fairmount Park)	411	11,580	3.5
2.07 Managing Director	77	2,684	2.9
2.59 District Attorney	452	18,473	2.4
2.26 Department of Records	47	3,000	1.6
2.45 Procurement Department	64	4,126	1.5
2.10 Fire Department	822	104,071	0.8
2.57 Clerk of Quarter Sessions	20	3,412	0.6

Source: The Mayor's Operating Budget, Fiscal Year 1990, City of Philadelphia.  
[see next page for footnotes]

Table B2. (Continued)  
Selected Contracts as Percentage of Departmental Budgets  
(Excluding departments with no personal services or budgets of less than \$1 million).  
Mayor's Proposed Operating Budget, FY90

Department:	Total General Fund		
	Selected Contracts * (\$000's)	Adjusted Budget Total (\$000's)	Contracts as Percentage of Total
2.60 Sheriff	50	8,640	0.6
2.08 Police Department	1,491	278,382	0.5
2.62 Commission on Human Relations	7	1,745	0.4
2.14 Dept. of Recreation (Art Museum)	0	3,964	0.0

\* Expenditures for professional, consultant and specialized services (Class 250), for repairs and maintenance (Class 260), and payments for care of individuals (Class 290), other Class 200 expenditures directly related to service provision were also included.

\*\* Excludes \$3.5 million for "Clean Philadelphia Program" and \$15.9 million for electric current for structure and street lighting from adjusted budget and contracted.

\*\*\* Excludes \$4 million advance to convention and civic center fund, from adjusted budget and contracted.

# Excludes \$1.6 million for jurors fees and services from adjusted budget and contracted.

## Excludes \$48.1 million provision for SEPTA, and \$3.6 million of SEPTA bond payments from adjusted budget and contracted.

Table B3.  
Benefit Costs, Excluding Leave and Supplemental Pay Costs, as a Percentage of Pay, by Occupational Groups  
U.S. Non-manufacturing Industries, March 1989

Occupational Groups	Total *	Benefits			
		Insurance	Retirement/ Savings	Legally Required	Other Benefits **
All Categories	20.6%	6.3%	3.5%	10.8%	0.0%
White Collar	18.7	6.2	3.5	9.1	0.0
Professional, and technical	18.1	5.6	3.7	8.8	0.0
Managerial, executive & admin.	17.3	5.3	3.8	8.2	0.1
Sales workers	17.4	5.2	2.3	9.9	0.0
Admin. support including clerical	21.8	8.5	3.7	9.6	0.0
Blue collar	26.6	7.2	4.3	15.2	0.0
Production, repair, craft	26.0	6.9	4.4	14.5	0.2
Transportation and mat. moving	27.8	7.5	4.6	15.7	0.0
Helpers, cleaners, laborers	26.5	7.3	3.7	15.5	0.0
Service wkr	20.2	5.1	1.9	13.2	0.0

Source: U.S. Department of Labor, Bureau of Labor Statistics, "News Employer Cost for Employee Compensation - March 1989" (June, 1989)

\* Excludes paid leave time and supplemental pay (premium pay for overtime, weekend, and holiday work, shift differentials and nonproduction bonuses)  
Totals may not equal sum of components due to rounding

\*\* Includes severance pay and supplemental unemployment plans

Table B4.  
Employee Benefit Expenditures as a Percent of Payroll: US National Surveys  
Compared to Philadelphia City Government

	City of Phila FY90						
	Chamber of Commerce U.S.-1988	Bureau of Labor Statistics U.S.-1989	Civilian			Uniformed	
			DC 33	DC 47 Local 2187	DC 47 Local 2186	FOP	Fire- Fighters
<b>Pay For Time Not Worked</b>							
Vacations	5.5	4.8	7.7	5.7	8.4	6.5	8.8
Holiday and administrative leave	3.8	2.9	6.5	6.5	6.5	6.5	7.0
Sick leave	1.3	1.0	4.4	1.0	1.0	4.1	1.0
Other leave	0.5	0.3	1.0	3.5	3.6	1.0	3.1
Subtotal	10.6	8.5	19.6	16.7	19.5	18.1	19.9
<b>Pay Supplements</b>							
Retirement and savings	5.0	3.6	16.0 *	16.0 *	16.0 *	28.5 *	25.5
FICA and related	6.9	7.2	7.6	7.6	7.6	0.0	0.0
Workers' Comp./disability	1.1	2.3	1.3	1.0	0.8	5.9	5.8
Unemployment Comp.	0.8	1.2	0.1	0.1	0.1	0.1	0.1
Life insurance	0.6	{	0.5	0.3	0.3	0.3	0.2
Medical and related benefits	8.0	{ 7.3	17.9	13.3	11.0	19.0	20.8
Legal benefits	0.0	{	0.6	0.5	0.4	0.5	0.4
Miscellaneous	0.9	1.2	0.0	0.0	0.0	1.8	1.8
Subtotal	23.3	22.9	44.0	38.8	36.2	56.1	54.6
Total	33.9	31.4	63.6	55.5	55.7	74.2	74.5

Sources: City of Philadelphia; FEL computations.

United States Department of Labor, Bureau of Labor Statistics, "News Employer Cost for Employee Compensation - March 1989" (June, 1989)

U.S. Chamber of Commerce, "Employee Benefits 1988 Edition". p.9.

\* Includes payments on past service liability; normal cost is 6.7% for civilian employees, 8.2% for Police Department employees and 9.1% for Fire Department employees.



Table B5.  
Summary Comparisons of Projected Private and City Costs for Selected Philadelphia Services

	Model A: City Wages Higher Than Private	Model B: City Wages Lower Than Private		Model C: City Wages Same As Private
	Custodial Services	Building Services	Auto Services	Sanitation Services
City Costs	\$2,514,989	\$4,601,943	\$5,098,280	\$73,125,450
Private Cost Projection One (a)	1,927,563	4,402,795	5,044,614	63,743,072
Private higher (lower) than city Percent	(23.4)	(4.3)	(1.1)	(12.8)
Amount	(\$587,426)	(\$199,148)	(\$53,666)	(\$9,382,378)
Private Cost Projection Two (b)	1,838,210	4,267,697	4,842,627	62,142,298
Private higher (lower) than city Percent	(26.9)	(7.3)	(5.0)	(15.0)
Amount	(\$676,779)	(\$334,246)	(\$255,653)	(\$10,983,152)

Source: Data in this table are from Appendix A, Tables A1-(a,b,c,) - A4-(a,b,c,).

(a) Projection One assumes that the private sector will have 10 per cent fewer employees than the City and will incur the same non-personnel costs as the City

(b) Projection Two assumes greater efficiency improvements on the part of the private sector: private non-personnel costs are assumed to decrease 10 percent below the levels used in Projection One

Table B6.  
Selected City of Philadelphia Salaries Compared to Area Wages, 1989

Bureau of Labor Statistics Title	City of Philadelphia Pay Rates(a)		Area Employers Pay Rates	Index of City Pay Relative to Area Pay
	Median Rate(b)	Adjusted Rate(c)	Median Rate	
Office Clerical:				
Messenger	\$16,107	309.75	\$258.50	119.8
File Clerk I	16,716	321.46	214.00	150.2
Typist I	16,716	321.46	250.50	128.3
Switchboard Operator	17,595	338.37	298.00	113.5
Key Entry Operator I	17,595	338.37	262.50	128.9
Typist II	18,414	354.12	330.00	107.3
Key Entry Operator II	18,414	354.12	346.00	102.3
Accounting Clerk III	20,602	396.19	370.00	107.1
Secretary III	22,860	439.62	425.00	103.4
Electronic Data Processing:				
Computer Programmer I	25,732	494.85	453.50	109.1
Skilled Maintenance:				
Maintenance Electrician	23,204	11.16	14.29	78.1
Maintenance Machinist (d)	23,204	11.16	14.56	76.6
Maintenance Painter	23,204	11.16	13.77	81.0
Maintenance Mechanic	23,204	11.16	14.16	78.8
Maintenance Carpenter	23,204	11.16	15.45	72.2
Unskilled Plant:				
Janitor, Porter, Cleaner	17,595	8.46	6.92	122.2
Other:				
Maintenance Trades Helper	19,983	9.61	13.17	72.9
Guard I	19,983	9.61	5.40	178.0
Computer Data Librarian	21,967	422.44	322.00	131.2
Stationary Engineer	23,838	11.46	13.90	82.5
Truck Driver, Tractor Trailer	24,338	11.70	14.12	82.9
Electronic Technician II	26,436	508.38	630.00	80.7

Notes: (a) Excludes longevity pay, which ranges between \$600 and \$2300 per employee, based on years of service.  
(b) Reflects the maximum step of the pay range, where most employees are classified.  
(c) Adjusted to an hourly or weekly basis to compare to BLS data.  
(d) Maintenance Machinist for motor vehicles.

Source: City of Philadelphia, The Mayor's Operating Budget for Fiscal 1990, Supporting Detail; and U.S. Department of Labor, Bureau of Labor Statistics, Philadelphia Area Wage Survey, November 1989.

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