

## TABLE OF CONTENTS

I.INTRODUCTION.....	1
II.BENEFITS AND LIMITATIONS OF THE CONTRACT MODEL.....	2
A.Advantages.....	2
B.Possible Disadvantages.....	3
III.ORGANIZATIONAL CONSIDERATIONS FOR THE CONTRACT AGENCY .....	4
IV.OPPORTUNITIES FOR INTERGOVERNMENTAL CONTRACTING.....	5
V.TYPES OF CONTRACT SERVICES .....	6
A.General/Basic Full-Service Contracts.....	6
B.Exclusive Services Contracts .....	7
C.Regional/Multi-Agency Contracts .....	8
D.Special Services Contracts.....	9
VI.THE TRANSITION PROCESS.....	9
A.Strategic/Organizational Plan .....	10
B.Request for Proposal .....	10
C.Steering Committee.....	11
D.Implementation Phase .....	12
VII.CONTRACTOR AGENCIES .....	12
A.Developing a Contract Team .....	12
B.Interagency Cost Analysis.....	13
VIII.CONTRACT AGENCY COST COMPARISON .....	14
A.In-House Costs .....	14
B.Contract Costs .....	14
C.Conversion Costs/Opportunities .....	14
IX.MANAGING THE CONTRACT.....	15
Maximizing Effectiveness .....	15
X.CONCLUSION.....	16
ABOUT THE AUTHOR .....	16
APPENDIX A: RESOURCE LISTING .....	17
APPENDIX B: POLICE SERVICES CONTRACT .....	18

# **INTERGOVERNMENTAL CONTRACTING FOR PUBLIC SERVICES**

by  
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## **EXECUTIVE SUMMARY**

In 1954, the City of Lakewood, California incorporated and needed to provide government services to its residents. In its search for cost-effective alternatives to delivering these services, Lakewood brought forth a concept which now serves as a model for, and a revolution in, the way government agencies provide services to its constituents—contracting for services.

Governments nationwide now contract for a multitude of services and products from public agencies and private firms. In California, over 25 percent of cities have made service contracting the core of their municipal organizations. In Los Angeles County alone, over 80 cities currently contract with the county government for over 16 categories of services from public safety to roadside tree services.

According to a California State Controllers Report, contract cities generally have the lowest per capita public employee/resident ratios and the lowest personnel costs in comparison to traditional “full service cities.” They also generally have the lowest per capita revenue base of cities within the state.

While recently incorporated cities have long turned to the contract model as a key source of service delivery, older cities are now considering this model. As fiscal pressures continue, agencies must find ways to reduce their costs or forgo providing certain services to their constituents. Many are now considering the possibility of contracting with other governmental agencies and the private sector for services in lieu of providing them “in-house.”

Intergovernmental contracting allows cities considerable flexibility in the levels of services provided—this can be of benefit in uncertain financial times. When properly implemented, contract services can result in considerable cost savings, increased service levels and the ability to utilize savings for tax reduction, infrastructure investment, or to maintain and expand other services.

Contracting between governmental agencies relies on many of the most basic business concepts; a well-planned service to be delivered, unit costs, client relations and customer service. For many governmental agencies, the entrepreneurial spirit can translate into profits and reduced costs for the contractor and considerable cost savings for the agency receiving the service. The result is a win-win proposition for both parties.

## I. INTRODUCTION

Intergovernmental contracting for public services—meaning one entity, the contractor, expands its current operations to provide a specified level of service to another governmental agency, the contractee—has become a very common means of delivering public services. As early as 1906, counties in New York State were routinely entering into contracts for property assessment and tax collection. This concept was expanded with the development of the “Lakewood Plan” when the City of Lakewood entered into a contract with the County of Los Angeles Sheriff’s Department in 1954 for the provision of law enforcement services. Since then intergovernmental contracting has expanded to include a multitude of service contracts between government agencies.

In developing the contract relationship, the City of Lakewood pioneered a way for new cities to provide public services without significant investments in capital facilities and overhead, while at the same time creating efficiency in the operations of government. The California State Controller’s report for the 1990–1991 fiscal year found contract cities to be the most cost effective of any class of municipality. According to the report:

- Contract cities have the lowest revenue per capita of any class of California cities. Contract cities on average receive approximately \$500 per person in revenues, compared to noncontract cities which receive nearly \$1,100.<sup>1</sup>
- Contract cities depend on a limited number of revenue sources—unlike the dozens of fees, charges and assessments found in noncontract cities. The typical contract city receives 28 percent of its total revenue from sales tax receipts and motor vehicle license fees.<sup>2</sup>

·Many California contract cities are “low property tax cities” or “no property tax cities.” The City of Lakewood, for example, currently receives only 4 cents of every property tax dollar collected in the city with the balance going to other governmental agencies. From a typical Lakewood home, identical to that in a noncontract city, Lakewood receives a total of \$9.86 to pay for municipal services. The noncontract city receives \$113.<sup>3</sup> points from 1982 to 1988. Nationally, the trends in all categories of intergovernmental agreements have remained mostly stable since 1982.

Nationally, intergovernmental contracting has been recognized as an important vehicle for service delivery. According to Karen Miller, Department of Community Affairs Secretary for the Commonwealth of Pennsylvania, “intergovernmental cooperation is a key to success in the complex world of modern municipal government. Pennsylvania cities, boroughs, towns and townships must look to their neighbors, as well as themselves, in order to maintain effective and efficient local governments, able to meet the rising expectations of citizens.”<sup>4</sup>

In 1990, the International City/County Management Association (ICMA) published a “Baseline Data Report” titled “Trends and Issues in the Use of Intergovernmental Agreements and Privatization in Local Government”. In the report, ICMA indicated that the use of intergovernmental agreements among local governments in the United States increased in the areas of health and human services and tax billing by ten or more percentage

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<sup>1</sup> State of California, “1990-91 State Controller’s Report,” Sacramento, CA, 1991.

<sup>2</sup> *Ibid.*

<sup>3</sup>Howard Chambers, *Contracting for Service as a Model For Local Government Organization*, City of Lakewood Presentation, 1992.

<sup>4</sup>Thomas Kurtz, *Intergovernmental Cooperation Handbook*, Patton Township, Penn., 1990.

### Other Governmental Contractual Relationships

**Private Contracts:** These contracts involve a public agency contracting with a private firm to deliver certain services and/or products in lieu of hiring government employees to provide the service. Governments are increasingly turning to private contractors in lieu of providing the service “in-house.”

**Regional/Joint Powers Authorities:** These are independent governmental agencies created by two or more government agencies to provide a defined type of service. The idea of sharing the costs of providing a common service within a regional area provides cost efficiencies and many of the same benefits of contracting with another public agency or a private firm.

Joint powers authorities (JPA's) are most commonly formed by neighboring communities and are used when major capital investments or services are required. Examples of JPA's include animal control, sewer and water improvements and services, social services, transportation and insurance services.

In Southern California, examples of successful JPA's include the Southeast Animal Control Authority (SEACCA), an animal control provider to eight cities and contractor to three, and the Southern California Joint Power's Insurance Authority (SCJPIA), an organization which provides General Liability, Property and Workers Compensation insurance to over 70 governmental agencies.

## II. BENEFITS AND LIMITATIONS OF THE CONTRACT MODEL

Intergovernmental agreements can provide a considerable number of advantages and disadvantages to public agencies. Advantages include organizational and financial benefits while disadvantages may include as well as the compromises and potential changes to the traditional service delivery philosophies of local government.

### A. Advantages

**Lower Operational Costs/Flexibility.** Contracting allows an agency to design its services based on specific needs. This creates the flexibility to reduce services during seasonal periods (i.e. when the need arises, bring on the staff; when it goes away, reduce staffing). This also creates the ability to integrate new projects requiring a quick response or increased staffing during heavy work periods.

**Example:** The city of Dana Point, California contracts with the Orange County Sheriff for a summer beach patrol without requiring that 100 percent of the annual salary costs for the deputy be included in the contract. Following the summer, the deputy is then reassigned by the Sheriff to other areas of the department.

**Economies of Scale.** Contracting avoids the duplication of personnel, capital equipment and facilities by utilizing economies of scale. A small city agency often does not have the specialists or technicians for assignments which would require 100 percent of their time. Cities can share traffic engineers, road departments, maintenance, parking enforcement officers and so on.

**Example:** According to John Gee, Chief of the Planning Division for the Los Angeles County Fire Department, the personnel assigned throughout the regional fire district receive training *and* experience in almost all areas of fire service. The agencies receiving the service also know that if the personnel at the local fire station do not have the skills to handle a unique situation, the depth of skills within the department will provide those abilities instantly. In Los Angeles County, contract agencies are receiving fire services from the best fire department in the world at a lower cost than providing the service in-house.

***Value-Added Services.*** Departments with larger personnel bases and operations generally provide personnel trained and experienced in multiple areas of expertise. Smaller agencies gain the expertise of personnel from the large agencies without the need to hire specialized classifications. Example: Utilizing a county fire service where the personnel receive training, certification and experience in multiple areas of expertise.

***Personnel/Labor Issues.*** Contracting avoids personnel administration and collective bargaining. It allows the contractee to manage the service in lieu of managing internal personnel issues. Contractees are also able to contract for personnel with the necessary skills and abilities to meet the goals of today. i.e., they have the ability to replace the dead wood in the organization.

**Intergovernmental Contracting Can Save on Police Costs**

In a 1992 study of law enforcement contract costs for six Orange County, California cities, a detailed analysis was conducted of what the contract dollar purchases in terms of service versus in-house police departments. The analysis indicated that 87.7 percent of each contract dollar goes for direct services— defined as the personnel and vehicles assigned at the city level and directly involved in field patrol, traffic enforcement, crime investigation and the management and supervision of those activities at the city level. The remaining 12.3 percent goes not only for Sheriff's Department and county overhead, but also, and primarily, pays for services such as dispatch and records processing—services which are key to the support of field personnel. These costs were compared to the average costs of a police department serving a city comparable to the contract cities which allocates about 65 percent–70 percent of each law enforcement dollar to direct services, while 30 percent–35 percent is required for indirect services and support.

**In-House vs. Contract Law Enforcement**

<u>City</u>	<u>Population</u>	<u>Per Capita Cost</u>
Newport Beach	66,643	\$473
Huntington Beach	181,519	234
Cypress	45,360	173
Irvine	111,000	170
Tustin	50,689	160
Buena Park	68,026	155
Brea	33,815	140
La Habra	51,266	134
Placentia	41,259	133
Fountain Valley	55,072	128
<b>Dana Point</b>	<b>31,900</b>	<b>115</b>
<b>San Juan Capistrano</b>	<b>26,300</b>	<b>91</b>
<b>Lake Forest</b>	<b>52,000</b>	<b>90</b>
<b>Laguna Niguel</b>	<b>44,400</b>	<b>76</b>
<b>Mission Viejo</b>	<b>72,800</b>	<b>71</b>

*Indicates contract cities*

*Source: Hughes, Heiss & Associates, Orange County Law Enforcement Study-1992*

**Liability Transfer/Sharing.** Contracting can reduce the contractee's liability by either requiring the contractor to assume the liability exposure or indemnify and hold the contracting agency harmless to claims. When multiple agencies enter into a contract, service liability is sometimes shared or “pooled” by the member agencies, thus offsetting the liability exposure to the agency.

**B.Possible Disadvantages**

**Reduction of Unified Service/Community Identity.** Agencies can experience a detachment of a unified organization due to the assignment of functions to outside agencies. Residents may be confused about who is providing services within the community when they are being provided by multiple agencies. (See section X on tips for Managing the Contract)

**Salary and Benefit Control.** The contracting agency loses control of the largest part of a service cost, the salary and benefits package. In many contracts with counties—because the County Auditor-Controller can modify contract costs

based on appropriate wage and benefit settlements—the contracting agency may not know its exact costs until three to four months into the fiscal year.

***Quality of the Contractors.*** The adage that “you get what you put into it” is often true. The contract manager of a contracting agency must be prepared to monitor the contract to ensure the desired quality of service.

***Contract Managers.*** Many contracts are administered by “generalist” administrators. Some may not have expertise in the area under contract and may become victims of the process.

***Transition.*** Moving to the contract model of government may put a strain on the city work force and a community's political climate. The organizational fears of existing employees can cause the deterioration of employee morale and productivity. The transition to a contract can also create political conflict. Employee associations will not take the issue of contracting lying down. A strong political organization may develop to incite political actions including recalls and voter initiatives.

### **III. ORGANIZATIONAL CONSIDERATIONS FOR THE CONTRACT AGENCY**

Agencies considering entering the world of contracting must realize that it is an important decision on the part of the organization. The agency is altering its scope from that of a totally independent entity to either a provider of a service (contractor) or a contracting agency. Once the decision is made, the ramifications and costs associated with altering course can be significant. The impacts of contracting are not only organization-wide, but also regionally significant, affecting the operations of multiple communities and agencies.

In deciding whether or not to contract for a service, it is important that agencies consider the following:

***Strategic/Organizational Plan.*** Contracting should be a component of a broader organizational plan. Many cities have initiated long-term financial and strategic plans which are designed to meet defined service and improvement needs. Contracting and privatization are often included as elements to achieve improvements in service levels and cost efficiencies within their long-range plan.

***Proposal Solicitation/Development.*** Soliciting or submitting a contract proposal should not be speculative. Both the contractor and the agency requesting the proposal should enter the process with an honest commitment to following through should the proposal prove cost and service effective. The process of developing a service contract proposal will require a significant allocation of resources to research and develop recommendations for the proposal. These resources will come from the highest levels of an organization and will represent a financial commitment on the part of both parties.

***Full Disclosure.*** Contracting agencies must be prepared to present a full disclosure of current costs and statistics for conducting business. The calculation of both direct and indirect costs for the provision of a service must be presented to the contractor in a full and complete manner. When entering into a contract agreement, the public contractor must receive the full cooperation of the contracting agency when developing its initial cost estimates and proposal. This will require the contracting agency to provide complete documentation of the service costs associated with their current operations.

***Win-Win.*** The result of the contracting proposal and process should be beneficial to both parties, a win-win outcome. The process of developing a contract between governmental agencies is a very open negotiation. The agreement must reflect efficiencies in the areas of service, costs and product.

### **Ten Key Elements of a Contractual Relationship**

Contracting for a key service is like marriage. It is the creation of a long-term relationship between two agencies. This “marriage” relies on the following key elements:

1. **Partnership** Both parties must acknowledge that the contract is a partnership.
2. **Client Relationship** As in the private sector, the contractor/agency must realize that the contractees are its clients and they must be treated in that manner.
3. **Political Climate** Before and during the contract, the relationship between the two parties must be politically stable and productive.
4. **Legal Authority** The contracting agency must have the legal authority to contract for the service.
5. **Trust and Understanding** between the principals of the contract are a must. Each should respect the other's interests and work to establish a productive working relationship.
6. **Contractees** must be willing to accept a more basic level of certain kinds of services.
7. **Expectations** These must be clear, understandable and measurable. Communication in the area of service delivery must be well defined and understood.
8. **Contract Managers** The contracting agency must have adequate personnel to oversee the services. This should include authority to monitor the contract and make decisions.
9. **Community Support** The contracting agency must ultimately have the support of the community for the service, especially if it is a major service.
10. **Level of Service** by the proposed contractor must already be high. Mediocrity will only breed more mediocrity.

## **IV. OPPORTUNITIES FOR INTERGOVERNMENTAL CONTRACTING**

Contracting possibilities among governmental agencies are generally limited only by legal requirements, scope of personnel or facilities. Los Angeles County has the largest contracting program in the country with over 1,000 contracts with 88 cities and numerous other governmental and private agencies. The services range from full service public safety programs such as police and fire to tax collection and predatory animal control. The next figure provides an overview of the services available through the Los Angeles County Program.



### **Los Angeles County Contract Services Program**

***Affirmative Action***

EEO/Labor Relations

***Agriculture/Weights & Measures Beaches and Harbors***

Weed Abatement

Predatory Animal

Vertebrate Pests

***Animal care and control***

Animal Control

Shelter Services

***Auditor/Controller***

Direct Assessments Collections

***Internal Services***

Real Estate Services

Communication Services

Technical Services

***Regional Planning***

Planning & Zoning Services

***Forester/Fire Warden***

Fire District Services

Contract Fire Suppression Services

***Public Works***

General Services

Building Inspection

Industrial Waste

Tract & Parcel Maps

Traffic Signals

Street Maintenance

Sewer Maintenance

***General Services Agreement***

General Services

Lifeguard Services

Beach Maintenance

Facility Maintenance

***Health Services***

Enforcement Health Ordinances

Massage Parlor/Tech Exam

***District Attorney***

City Prosecution Services

***Parks & Recreation***

Roadside Tree Service

Craft Programs

Recreation Services

***Superior Court***

Microfilm Storage

***Treasurer/Tax Collector***

Business License Collections

Transient Occupancy Tax Collection

***Sheriff's Department***

General Law Enforcement

Traffic Law Enforcement

Detective Services

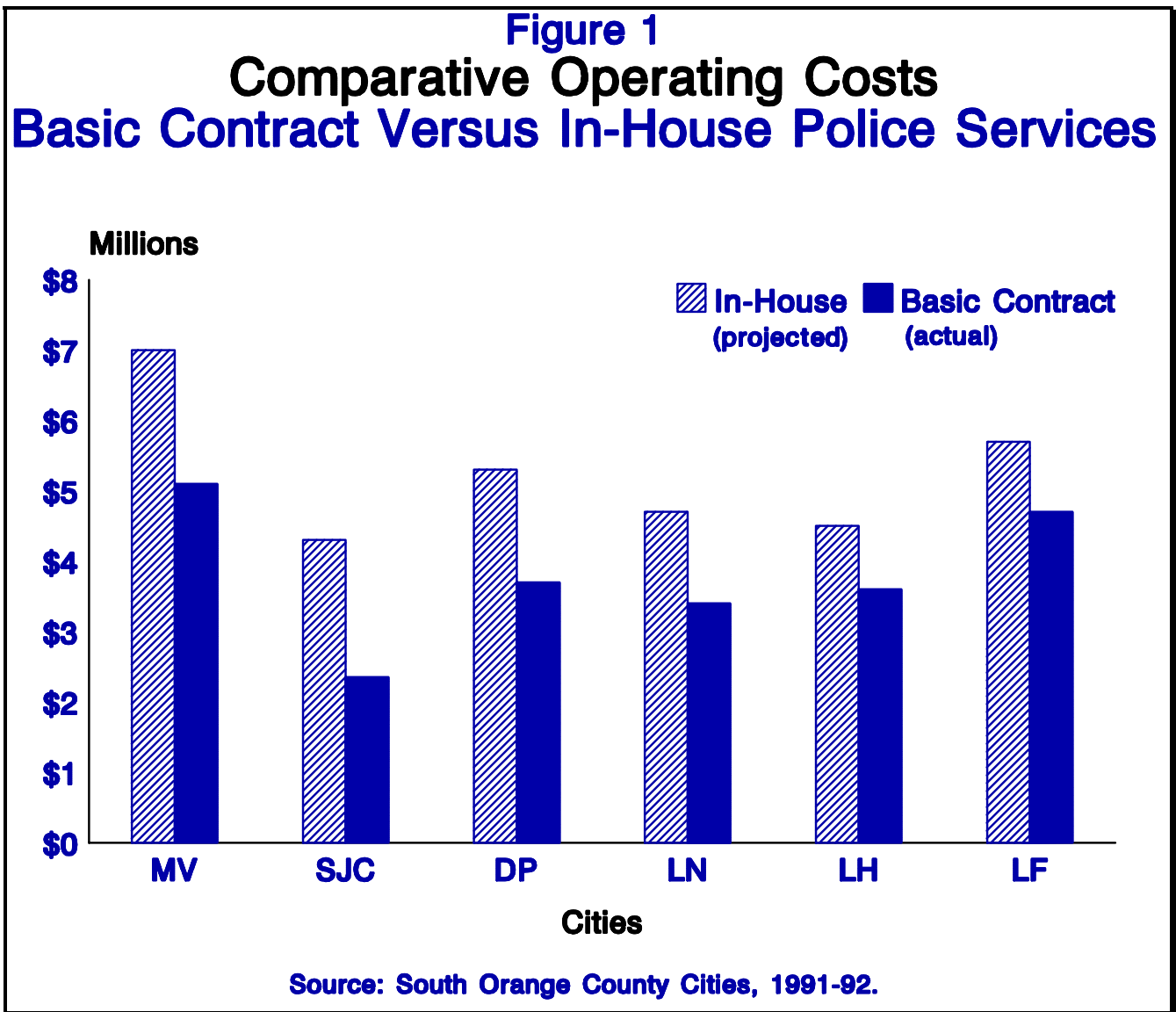
Helicopter Programs

Special Occasions

Source: Los Angeles County Contract Services "Dot Chart"

## **V. TYPES OF CONTRACT SERVICES**

The types of services available to a contracting agency will naturally vary depending on the desires of the agency soliciting the contract and the ability or willingness of the contractor to provide the service. Generally, contract services fall into four categories including: General/Basic Full Services, Exclusive Services, Regional/Multi-Agency Agreements and Special Services Contracts.



**A.General/Basic Full-Service Contracts**

A General Services Agreement (basic full service contract) generally provides for a defined scope or package of services determined by both the contractor's assessments and the contract agency's agreement to that level of service. The contract agency serves as the base agreement between the parties. Necessity often dictates service

level changes within a given period, and the flexibility of the agreement allows agencies to mutually modify the contract without replacing the entire agreement.

The basic-full service contract is generally the most common service delivery option chosen by an agency. It is also the most cost-effective because it takes advantage of economies of scale.

In Los Angeles County, the Sheriff's Department has entered into 42 police services contracts. The Appendix of this guide includes a sample agreement used by Los Angeles County when entering into general services contracts for basic law enforcement.

### **B.Exclusive Services Contracts**

Agencies may desire to contract for a highly specialized level of service which does not fall under the basic levels of services recommended by the contractor. This "exclusive" type of agreement may include additional amenities beyond the "basic" level of services, such as specialized types of equipment or an extension of services unique to an area.

The exclusive service option customizes a service to meet the needs of a community. This option may allow an agency to enjoy the economy of contracting, while at the same time, creating a uniqueness which adds personalized service to meet particular needs.

Examples of "Exclusive Services" may include:

- Bike, equestrian or motorcycles in lieu of or in addition to patrol vehicles;
- Harbor or beach patrols;
- Additional paramedic units beyond the basic levels;
- Special ordinance prosecution;
- Specialized animal enforcement or care; and
- Gang prevention or suppression programs.

In Orange County, California, the County Probation Department has established a contract "gang suppression" program to provide an increased level of supervision of known gang members. Under the contract, the probation department, in conjunction with the local law enforcement authorities maintains a suppression team which monitors gang probationers and works toward lowering gang-related activities within the area.

### **C.Regional/Multi-Agency Contracts**

The most economical form of contracting occurs when multiple agencies contract as partners in regional programs with other contract agencies. Where services are not limited to a specific boundary, regional services can be designed to improve the service delivery at a considerable savings.

In public safety services, regional programs may vary from two small cities sharing a single patrol car to several large cities sharing the costs of numerous patrol units. In Los Angeles County, multi-agency regional patrol programs have been successful for several reasons:

- 1.Regional service programs eliminate the need to deploy patrols according to city jurisdictional boundaries; therefore, cities in the program can benefit from mutually sharing adjacent resources.
- 2.Patrol cars can be deployed more effectively according to each city's needs during different hours of the day.
- 3.The cost of each participating city is decreased because the total complement of police personnel is utilized more efficiently.

In Orange County, California, 22 of the county's 31 cities contract with the County Animal Control Services for animal control and rabies prevention. By utilizing a central shelter facility and regionally dispatching field personnel, costs savings are significant for all participating agencies. The contract agencies participating in the multi-city program are also able to contract for exclusive services on an individual basis to solve specialized problems unique to that city.

#### **Contracting for Recreation Services—Brea and Diamond Bar, California**

In 1990, the City of Diamond Bar, California entered into a contractual relationship with the City of Brea Community Services Department for the management and provision of community and recreation services. Brea, touting its reputation for high quality recreation programs, excellent customer services, innovative community programming and its depth of existing personnel, submitted the low bid in an RFP process to provide a variety of services including community event support, recreation classes and adult and youth sports. Under the arrangement, Brea coordinates the hiring and management of all recreation personnel, marketing and registration for services and program development.

Brea submits an annual budget outlining a projection of all costs and revenues for a fiscal year. The budget includes both a full cost recovery of services to be provided and 22 percent overhead costs. Additionally, Brea and Diamond Bar have agreed to equally divide all revenues received from the contract which exceed projections.

As a result of the contract, Brea employees are now encouraged to develop a more “entrepreneurial” approach to marketing community programming within the City of Diamond Bar. The benefit for Brea is the receipt of offsetting revenue (22 percent of the contract) to their general fund and a split of all excess revenue generated from the contract. For Diamond Bar, the city receives the benefits of high quality community programming, a low capital investment requirement and no need to assume the labor-intensive requirement of hiring personnel for recreation programming. The result is win-win for both communities.

Regional costs are distributed among the participating agencies according to a formula mutually agreeable to all parties. While the factors considered in each formula may vary, the most reliable are usually based on actual records of service during a prior period of time. Present cost then becomes the predictor of future cost allocations. In the Orange County Animal Control Service, agencies are billed based on the number of calls for service, animals impounded and special service calls.

#### **D.Special Services Contracts**

Some cities may wish to enter into contracts with other agencies for either a limited duration or for a special event or program. Agencies may also use the contracting process to supplement existing departments or services without having to absorb the costs inherent with permanent service expansion.

Examples of these types of agreements may include:

- Police departments contracting for supplemental law enforcement programs from the Sheriff's Department to include helicopter programs or the transportation of prisoners;
- The Tournament of Roses Parade and Rose Bowl Game in Pasadena contracting with Los Angeles County for security and law enforcement services; and
- School districts contracting with local police agencies for school events or truancy control.

## **VI. THE TRANSITION PROCESS**

As previously mentioned, entering the world of contracting for services is a major decision on the part of the contracting agency as well as the contractor. The political and organizational impacts to both agencies can be significant.

Cities transitioning from an existing service to a contract with another governmental agency should follow these four steps:

1. Develop Strategic/Organizational Plan;
2. Send Out Request for Proposal;
3. Set Up Proposal Development/Steering Committee to monitor and conduct process; and
4. Implement Contracting.

### **Case Example: San Clemente, California**

In 1991 the City of San Clemente, California began experiencing significant fiscal problems which threatened the future financial viability of the city. Effects of a recession, a declining economy, aging infrastructure and declining local revenues were slowly putting the city in a “crisis situation.” The results were direct and immediate impacts on the city organization. Emergency spending restrictions were imposed, capital projects were deferred, positions were eliminated and hiring freezes were imposed.

In January, 1993, the city published a Long-Term Financial Plan outlining key issues requiring resolution. This included comprehensive financial forecasts, capital improvement projections and operational/service requirements for a five-year period. A total of 70 recommendations were presented to modify the organization. Contracting/privatization represented a small component of the recommendations to guide the organization toward financial and service improvements.

In April, 1993, San Clemente requested and received a proposal from the Orange County, California Sheriff’s Department to replace its 65-year-old Police Department. Because the plan established both service and financial goals to determine the viability of replacing a key service department, the justification for enacting the politically dangerous contract was found justifiable. In July, 1993, the city disbanded its police department and achieved a \$2-million reduction in costs and a significant increase in services. Both the reduced costs and the increased levels of service were included in the financial strategic plan.

#### **A.Strategic/Organizational Plan**

When an agency solicits a contract from another governmental agency, there should generally be a reason behind the need to disband their current service operation. For many cities, the economics of the 1990s has forced them to cut costs and it may no longer be affordable to provide existing services “in-house.” For some agencies the ability to expand their current services may be beyond their existing resources or abilities, and contracting with other agencies would be not only cost efficient but also organizationally effective. The reasons are different for every agency.

Agencies should first set in motion a strategic plan guiding the future course of their organization. Contracting may be a key component, but not the only answer. The plan should establish goals, objectives and realistic time lines for achievement. It should also set forth an action plan with measurable expectations to guide its implementation.

#### **B.Request for Proposal**

The request for proposal should not be speculative. Because governmental agencies must account for the expenditure of personnel resources for the benefit of their constituents, the expenditure of time preparing a proposal should be toward a serious premise. The Request for Proposal should have the following elements:

***Be in Writing.*** The request should come from either the chief operating officer of the organization or the chairperson of the elected board. Support for the development of a proposal from the elected body is crucial.

***Specify the Service.*** Indicate the required levels of service that are needed in lieu of insufficient current levels of service. Establish quality standards and special needs the agency will want in the service. A pre-proposal process of defining quality guidelines should precede the request for proposal.

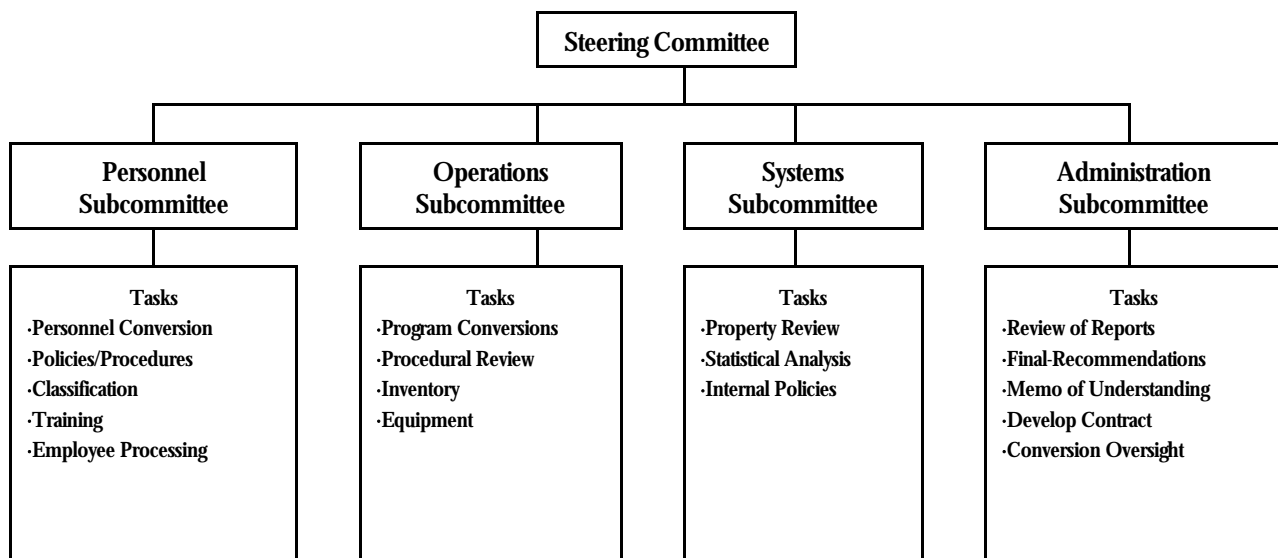
***State a Timeline.*** Indicate the timeline for the receipt of the proposal.

***Designate a Project Manager.*** Designate the agency manager who will be the main contact for the contractor. This person should be able to speak for the agency, provide information and make commitments on desired levels of service and contract provisions.

During this process, the contracting agency should be prepared to provide a “full disclosure” regarding the services to be provided. This includes accurate statistical information, equipment and infrastructure inventories, and personnel information. The development of the proposal should be less of a negotiation and more of a collaborative effort between the two agencies.

Figure 2

**Establishing a “Steering Committee” for Proposal Development**



**C. Steering Committee**

If an agency is considering contracting for a *major* service, it is recommended that a “Steering Committee” be established for the development of the proposal. Participants on the committee should come from both agencies to perform the research and development of the proposal and potential contract.

The steering committee should be assigned specific tasks and subcommittees should be appointed to conduct the appropriate analysis. Subcommittee tasks may include the following:

**Personnel/Training.** Perform a comprehensive review of personnel and staffing to be absorbed by the agency. This should include establishing personnel evaluation criteria and issues identification, analyzing training needs and abilities, and developing a process for an orderly personnel transition.

**Operations.** Review all operations and current methods of service delivery. This committee should provide a comprehensive/critical analysis of current operations and prepare transition options and recommendations.

**Systems.** Review statistical data, prepare inventories and equipment needs, and develop appropriate conversion options to transition systems to the new agency.

**Administrative.** This committee—which should include the top levels of management from each agency—reviews the subcommittee reports and prepares final recommendations. The final products from this group should include the proposal, contract, and the final memorandum of understanding.

#### D. Implementation Phase

If the contract is approved, the transition of the service should have already been formulated as part of the proposal development. The steering committee should then lead the transitioning of services.

#### Tips for the Committee

1. Designate one spokesperson per agency.
2. Establish a mechanism for internal “rumor control.” Communicate frequently and honestly with those who may be affected.
3. Try to stay out of the local politics.
4. Bring everyone to the table when gathering information.
5. Market information and the positive aspects of the contract service to the public.

## VII. CONTRACTOR AGENCIES

Becoming a contractor of a governmental service represents an important entrepreneurial venture for any agency. The agency becomes more than just a provider of service, it assumes responsibility for marketing a product, maintaining service quality outside its own agency, and satisfying other clients. As a general rule, the contractor agency should focus its entrepreneurial efforts on services that are not widely provided by the private sector such as police and fire. The agency should avoid going into direct competition with private firms in other jurisdictions and gaining contracts by way of its tax and legal advantages over the private sector—not to mention the fact that unlike a private firm, a public agency that failed in the market wouldn't go bankrupt. Two key elements of the service to be provided will include: 1) developing a contract team; and 2) performing an intra-agency analysis to establish costs.

#### A. Developing a Contract Team

As mentioned in the previous section, it is crucial that the contractor develop an effective team to prepare the initial proposal; however, it is also imperative that once the contract is established, the team of individuals dedicated to servicing the contract is maintained. The individuals on that team should include a Contracts Manager and a Service Coordinator.

**Contracts Manager.** This individual from the contracting department who constantly monitors the agreement and serves as the main contact with contracting agencies.

The contracts manager should be located in the highest level of the servicing agency and have the authority to represent the organization in negotiations and in routine contract modifications. Client questions should be answered

with the certainty of a commitment. The Los Angeles County Sheriff's Department has assigned a captain to manage its 42 police services contracts.<sup>5</sup>

**Service Coordinator.** This individual should be directly affiliated and in constant contact with the client/agency and have the authority to manage service delivery and implement service adjustments with relative ease. The Service Coordinator is the first line of contact with the client and should be held ultimately responsible for service quality.

Typically, the service coordinator is the division manager or the area supervisor assigned within the contract agency's territory such as division chiefs in fire services districts and captains or lieutenants in sheriff departments.

The contract service team should also require the upper echelons of the organization to pay particular attention to the contracts. Including input and participation from the contract agencies in how an agency delivers services helps to maintain the long-term viability of the contract relationship.

### **B. Interagency Cost Analysis**

A key aspect of the contracting process is establishing the bottom-line cost. As a governmental agency, making and sustaining a profit may not be looked upon in a positive light by the public. However, an agency can (and should) work toward full cost recovery for the service it is providing.

To determine contract costs, the service provider must begin with the calculation of the fully allocated *unit* cost for providing the proposed service. This includes the calculation of both direct and indirect costs from within the organization. While many private companies utilize unit costing in their everyday business, for many public agencies, determining "unit" costs is a relatively new concept.

**Direct Costs.**<sup>6</sup> Direct costs are those charges that only benefit and thus are totally (100 percent) chargeable to a target service. Direct costs are all costs consumed or expended for the exclusive benefit of the target service. Examples of direct costs include:

- *Salaries.* Including overtime and premium pay.
- *Benefits.* Retirement; group insurance; health and welfare costs; workers compensation; unemployment insurance; and disability insurance.
- *Transportation.* Vehicle operating costs plus a reserve for replacement.
- *Operating Expenses.* Includes supplies and materials, travel, printing, rent utilities, and communications.

Some direct costs frequently overlooked include interests costs, pension costs and facility and equipment costs.

**Indirect Costs.**<sup>7</sup> Indirect costs (overhead) are those cost items that benefit the target service and at least one other government service, program or activity. The expense of various administrative and support services provided to a target service by other governmental departments are the overhead or indirect costs. Examples of indirect costs include:

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<sup>5</sup>Los Angeles County Sheriff's Department, "Contract Law Enforcement Program Guide," January, 1993.

<sup>6</sup>Lawrence Martin, "How to Compare Costs Between In-House and Contracted Services," Reason Foundation, *How-to Guide No. 4*, March, 1993, pp. 3-4.

<sup>7</sup> *Ibid.*



- *Department Overhead.* Personnel and fiscal services.
- *Division Overhead.* Command and support staff related to assigned staff.
- *Training Costs.*
- *General Agency Overhead.* Allocated costs from the entire organization which theoretically support the contract department's function.
- *Contract Management.*

In many organizations, the indirect costs can also include the legal, personnel and chief administrative office functions. These costs are often apportioned among services, programs and activities according to a cost allocation scheme or plan.

## VIII. CONTRACT AGENCY COST COMPARISON

For the contracting agency, the establishment of costs is also essential in determining the benefits of contracting. A similar analysis to that mentioned above should be conducted. In comparing costs, the contract agency should compare the following components to determine its actual cost savings:

### A. In-House Costs

1. Direct Personnel Costs
2. Direct Non-Personnel Costs
3. Indirect Costs
4. Depreciation or Use Allowance

Calculated, these costs should determine the total in-house costs for performing a particular function.

### B. Contract Costs

1. Contractor Proposal
2. Contract Administration Costs (City cost)
3. Conversion Costs
  - a. One-time (costs)/revenues
  - b. Long-term (costs)/revenues
4. Off-Setting Revenues

<b>In-House Costs - Contract Costs = Cost Savings</b>
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These costs should determine the total costs to assume the contract service.

### C. Conversion Costs/Opportunities

It is important that agencies converting an in-house service to a contract take into consideration a number of key costs and opportunities regarding personnel costs, litigation and facilities and equipment.

**Personnel.** Although you may be transferring most of the personnel and associated costs to the contracting agency, some key considerations to consider, both short and long term, include:

- *Accrued Leave.* Long-term personnel may have considerable amounts of vacation, sick and administrative leave accrued which may require reimbursement prior to conversion.

- **Disability Premiums/Liability.** Most contractors will not assume the costs of unfunded liabilities for current employees such as workers compensation, disability leave or retirement. Many of these costs will remain for a time following the transfer of service.
- **Retirement.** The costs for past employees will remain the same, although the potential for a reevaluation of costs may lower the employer's contribution rate.

**Litigation.** While the transfer of liability will occur with the service, agencies must still maintain reserves and funding for outstanding litigation.

**Equipment.** Once a service is contracted, the contracting agency disposes of its remaining equipment. Options include leasing equipment to the contractor to reduce contract costs, selling the equipment at auctions following an approved amortization schedule; or transferring the equipment interdepartmentally to reduce future capital costs.

**Facilities.** Agencies converting a service may desire to maintain ownership of existing facilities in lieu of transferring it to the contractor. The main benefit of this option is the ownership of the leverageable assets for the future benefit of bonding capability.

## IX. MANAGING THE CONTRACT

Once the contract is entered into, managing the service and the agreement becomes the main focus of the contract agency. Although most of the financial and interdepartmental burden has been transferred, the contracting agency is still responsible to its constituents for the quality of the service.

Managing the contract should not be dramatically different than managing a department within the organization. Under the contract model, however, a number of particular issues may emerge, such as:

- Confusion over who is actually providing the service;
- Reduction of unified service;
- Loss of community identity; and
- No control over the work force.

### Maximizing Effectiveness

In order to avoid these potential problems and maximize the effectiveness of a contract, the following mechanisms are recommended:

**Memorandum of Understanding.** While the main contract emphasizes the “basic level of service,” the agency can enter into a managerial “memorandum of understanding” outlining more detail-oriented matters. These may include retaining the option for existing personnel to continue to work in your jurisdiction, agency seals and names on vehicles and work uniforms, and community-oriented activities in which the contractor must participate.

**Specify Personnel.** While it may be difficult to designate or request decision-making authority regarding line personnel, the line service managers from the agency may be definable.

In Orange County, California, the Sheriff's Department assigns captains and lieutenants to serve as the “Chief of Police” for the contracting agencies. The city managers from each jurisdiction are allowed to participate in the evaluation and selection of the individual assigned to manage the police services within their city.

***Performance Objectives and Expectations.*** It is crucial that performance criteria be established by the contract agency to monitor the service provided. Agencies should define expectations annually and utilize them in monitoring the contract.

***Evaluation.*** Contractors should be required to submit annual reports detailing major initiatives, achievements and goals for the following year. Contracting agencies should work with the contractor to specify measurable expectations and service requirements.

***Management Team Players.*** If contractors are managing a key service, they should be included as part of the contracting agency's management team. Include them in staff meetings and retreats, and require their attendance at public meetings and community/civic functions. They should become as involved in agency functions as any other department head.

***Appearance.*** Many contractors will often continue to only associate themselves with *their* agency. Mandate that when conducting the contracting agency's business, they use your agency's business cards and letterhead. They should represent themselves as your department head or agency representative.

## **X. CONCLUSION**

Intergovernmental contracting for services converts the economies of scale of contractor agencies into savings for contract agencies. The result in most cases is expanded services at significantly reduced cost.

Intergovernmental contracting is a genuine partnership between agencies. The challenge for the contractee is to effectively manage the service and for the contractor to become entrepreneurial in servicing their clients.

Across the country, government agencies face the economic realities of shrinking revenues and increased mandates for services. Intergovernmental contracting for services is a proven, cost-effective means of providing public services. More than just an option, it is one solution to meeting critical public-sector needs of today and tomorrow.

## **ABOUT THE AUTHOR**

John W. Donlevy, Jr. is a Principal of Donlevy Administrative Services, a local government consulting firm. He has worked in local government for nine years with the Cities of Pico Rivera and Dana Point, California. He holds a Bachelor's Degree from Whittier College and a Master's Degree in Public Administration from CSU Long Beach.

**APPENDIX A: RESOURCE LISTING**

The following is a listing of persons who contributed to the development of this guide. These individuals are leaders in the field of service contracting and are recommended resources for agencies to contact.

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**Dennis Courtemarche**  
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City of Pico Rivera  
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Pico Rivera, CA 90660  
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**Dennis LaDucer**  
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Orange County Sheriff's Department  
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Santa Ana, CA 92702  
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**Captain Doug Storm**  
Captain- South County Operations  
Orange County Sheriff's Department  
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**Paul Gudgeirson**  
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**APPENDIX B: POLICE SERVICES CONTRACT  
CITY-COUNTY  
Law Enforcement Services Agreement**

THIS AGREEMENT, dated for purposes of reference only, \_\_\_\_\_, 199\_\_, is made by and between the COUNTY OF LOS ANGELES, hereinafter referred to as "County" and the CITY OF \_\_\_\_\_, hereinafter referred to as "City."

RECITALS:

(a) The City is desirous of contracting with the County for the performance of the hereinafter described law enforcement functions within its boundaries by the County of Los Angeles through the Sheriff thereof.

(b) The County of Los Angeles is agreeable to rendering such services on the terms and conditions hereinafter set forth.

(c) Such contracts are authorized and provided for by the provisions of Section 56-1/2 and 56-3/4 of the Charter of the County of Los Angeles and Article 1, Chapter 1, Part 2, Division 1, Title 5 of the Government Code of the State of California.

**THEREFORE, THE PARTIES MUTUALLY AGREE AS FOLLOWS:**

1. The County agrees, through the Sheriff of the County of Los Angeles, to provide police protection within the corporate limits of the City to the extent and in the manner hereinafter set forth.

Except as otherwise hereinafter specifically set forth, such services shall only encompass duties and functions of the type coming within the jurisdiction customarily rendered by the Sheriff of the County of Los Angeles under the Charter of said County and statutes of the State of California, and under the municipal codes of the City for which the Sheriff's services are provided.

2. During the term of the agreement, the Sheriff or his designee shall serve as Chief of Police of the City and shall perform the functions of the Chief of Police at the direction of the City. The rendition of the services performed by the Sheriff's Department, the standards of performance, the discipline of officers, and other matters incident to the performance of such services and the control of the personnel so employed shall remain with the County. In the event of a dispute between the parties to this contract as to the extent of the duties and functions to be rendered hereunder, or the minimum level or manner of performance of such service, the City shall be consulted and a mutual determination thereof shall be made by both the Sheriff of the County and the City. The Sheriff, in an unresolved dispute, shall have final and conclusive determination as between the parties thereto.

3. Services performed hereunder may include, if requested by the City, traffic enforcement, license inspection and enforcement, the supplying of crossing guards, crime prevention, community service officers, and law enforcement education programs. The City is not limited to the foregoing services, but may also request any other service in the field of public safety, law, or related fields within the legal power of the Sheriff to provide.

If the City desires to receive traffic enforcement, license inspection and enforcement and/or the supplying of crossing guards, crime prevention, community service officers or law enforcement education programs, the City shall notify the Board of Supervisors by resolution of the City Council indicating its desire. Should the City desire to receive any service from the Sheriff not specifically listed above, the City Council, by resolution must indicate that the Sheriff is willing to provide such services.

4. For the purpose of performing said functions, the County shall furnish and supply all necessary labor, supervision, equipment, communication facilities, and supplies necessary to maintain the agreed level of service to be rendered hereunder. Notwithstanding the foregoing the City may provide additional resources for the County to utilize in performance of the services.

When and if both parties to this contract concur as to the necessity of maintaining law enforcement headquarters within said City which would not normally be provided by the Sheriff, the City shall furnish at its own expense all necessary office space, furniture and furnishings, office supplies, janitor service, telephone, light water and other utilities. It is expressly further understood that in event such local office is maintained in said City, such quarters may be used by the Sheriff of the County of

Los Angeles in connection with the performance of his duties in territory outside the City, provided, however, that the performance of such outside duties shall not be at any additional cost to the City.

Notwithstanding the foregoing, it is mutually agreed that in all instances where special supplies, stationery, notices, forms, and the like must be issued in the name of said City, the same shall be supplied by the City at its own cost and expense.

5. All persons employed in the performance of such services and functions pursuant to this agreement for the City shall be County employees, and no City employee shall be taken over by said County, and no person employed hereunder shall have any City pension, civil service, or any status or right.

For the purpose of performing services and functions, pursuant to this agreement and only for the purpose of giving official status to the performance thereof, every County officer and/or employee engaged in performing any such service and function shall be deemed to be an officer of the employee of the City while performing such service for the City, which service is within the scope of this agreement and is a municipal function.

6. The contracting City shall not be called upon to assume any liability for the direct payment of any Sheriff's Department salaries, wages, or other compensation to any County personnel performing services hereunder for said City.

7. The parties hereto have executed an Assumption of Liability Agreement approved by the Board of Supervisors on December 27, 1977, and/or a Joint Indemnity Agreement approved by the Board of Supervisors on October 8, 1991. Whichever of these documents the City has signed later in time is currently in effect and hereby made a part of and incorporated into this agreement as if set out in the full herein. In the event the Board of Supervisors later approves a revised Joint Indemnity Agreement and the City executes the revised agreement, the subsequent agreement as of its effective date shall supersede the agreement previously in effect between the parties hereto.

8. Unless sooner terminated as provided herein, this agreement shall be effective July 1, 199\_\_ and shall remain in effect until June 30, 199\_\_. At the option of the Board of Supervisors and with the consent of the City Council, this agreement may be renewable for successive periods of not to exceed five years each.

The Sheriff of the County shall notify the City no less than one year prior to the expiration of this agreement that a specific renewal request will be required from the City for any succeeding period.

In the event the City desires to renew this agreement for any succeeding five-year period, the City Council, no later than December 31st of the year preceding the expiration date of this agreement, shall notify the Board of Supervisors of said County that it wishes to renew the same, whereupon said Board of Supervisors, no later than the last day of January, may notify said City Council in writing of its determination concerning such renewal for an additional five-year period or such other term as mutually agreed upon, otherwise this agreement shall finally terminate on the above specified date.

Notwithstanding the provisions of this paragraph set forth, either party may terminate this agreement as of the first day of July of any year upon notice in writing to the other party of no less than (60) days prior thereto.

Notwithstanding any provision herein to the contrary, the City may terminate this agreement upon notice in writing to the County given within sixty (60) days of receipt of the written notice by the County of any increase in the rate for any service to be

performed hereunder, and in such an event this agreement shall terminate sixty (60) calendar days from the date of the City's notice to the County aforementioned.

9. Basic law enforcement service will be provided by the County on the basis of a general law-enforcement patrol car, or multiple fraction thereof, and a station detective, or multiple fraction thereof. It is hereby agreed that the minimum level basic law enforcement service shall be mutually agreed upon by both the City and the County as provided in Paragraph 2 herein.

10. The City shall pay for such service or services as are required and requested provided under this contract during the fiscal year 199\_\_-9\_\_ at the following rates or any revised rates or combinations thereof, plus such additional amounts as determined by the County Auditor-Controller that will reflect any amendment to the County Salary Ordinance related to salaries and employee benefits adopted by the Board of Supervisors.