

Local Government Contracting

The Survey on Local Government Contracting was conducted by American University, with the support of the National League of Cities.

With increased fiscal challenges for many cities across America, more local leaders have recently begun investigating alternative means for delivering services, namely contracting or privatization. While contracting is not a new concept, it does alter the service delivery landscape for city officials. More specifically, contracting requires a new set of local management skills and raises issues about the quality of contracted services, new costs associated with contracting, managing vendor competition and ensuring optimal contract performance.

American University, with the support of the National League of Cities, launched the Survey on Local Government Contracting to better understand how public managers view contracting in the nation's cities and towns. Public managers across the country provided critical insights into the "real time" management challenges of local government contracting, helping to highlight the importance of effective governing.

The results of the survey indicate that while municipal officials generally favor government contracting, many face significant challenges in holding contractors accountable for their performance. This may be attributed to the competitiveness of the market for the contracted service, management capacity of both the government and contractor, and the effective (or ineffective) use of performance incentives.

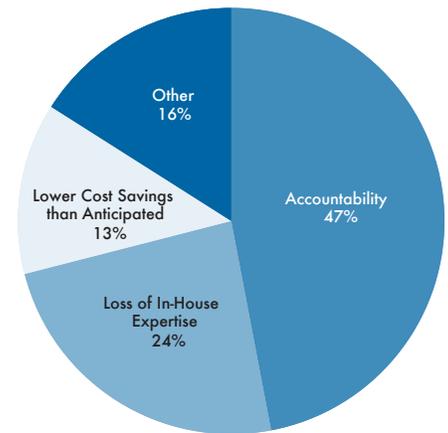


Figure 1: Greatest Drawback of Contracting

ATTITUDES ABOUT CONTRACTING

The survey asked managers questions about their general attitudes on municipal contracting. Results indicate that managers generally:

- Support government contracting (93%);
- Prefer to provide services in-house if given the option (69%); and
- Believe that most public agencies do a good job at contract management (63%).

About one in two managers (47%) report the greatest drawback of contracting is the difficulty of holding contractors accountable for their performance (See Figure 1). The greatest benefits of contracting are distributed across a number of factors, ranging from cost savings (35%), greater flexibility in service delivery (32%), staffing (14%), and higher quality services (13%) (See Figure 2).

Overall, most respondents (69%) indicate that their contracts produce high-quality services to citizens. However, there is less consensus among managers about cost savings, as just over half (55%) report saving money from contracting services.¹ The vast majority of public managers (69%) are generally confident in their level of expertise to manage contracts. However, less than half report having the adequate staff (48%) or enough time (40%) to effectively manage contracts.

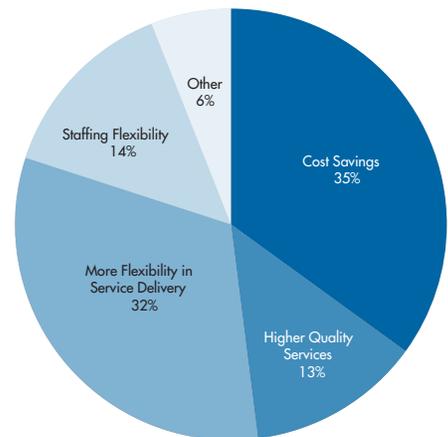


Figure 2: Greatest Benefit of Contracting

¹ Unless otherwise indicated, this means the respondent reported agreement (agree or strongly agree) on a five-point scale ranging from strongly disagree to strongly agree.

COMPETITION IN CITY CONTRACTS

Just over half of managers surveyed (55%) report being satisfied with the market for their contracts. Respondents reveal that they would prefer to work with multiple vendors for their contracts, and 87 percent say that four or more is optimal. Yet one-quarter of the managers surveyed report they often resign themselves to working with a small number of vendors because their efforts to find more have failed.

When asked about their ability to find other vendors, managers reported that:

- It is difficult to find high quality vendors (34%);
- The number of contract bidders tends to reduce over time (22%), often because contractors buy each other out (14%);
- They continue to seek additional vendors for current contracts with the next contract cycle in mind (53%); and
- Finding vendors takes away from oversight work (23%).

In order to manage vendor competition, managers report using a variety of strategies to increase the number of vendors for government contracts and otherwise strengthen competition for their contracts.

Perhaps most interesting is that two in five managers routinely report using mixed delivery (i.e. some portion of the service is contracted out while some portion is produced in-house) all (7%) or most of the time (34%), and about one in three (34%) actively create new vendors (i.e. encouraging outside organizations to set up new subsidiaries for contract work) at least some of the time (See Figure 3).

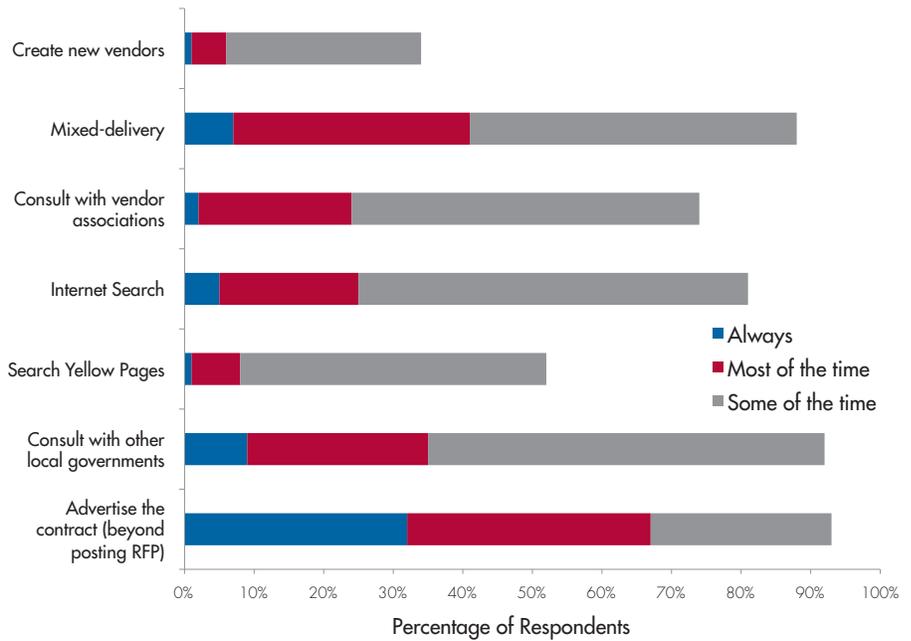


Figure 3: Strategies Used for Strengthening Competition

CONTRACT PERFORMANCE

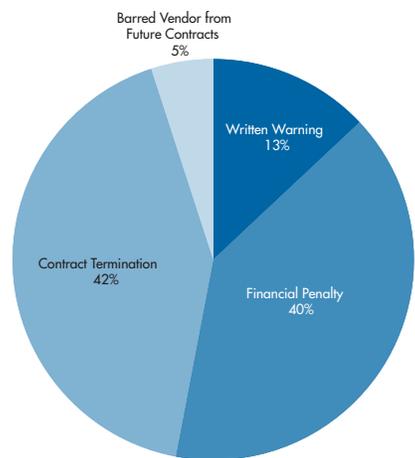


Figure 4: Type of Sanction Applied to Delinquent Contractors

Public managers also report mentoring and helping contractors with performance. Twenty percent indicate that they spend a significant amount of time helping contractors improve contract performance. More than half of respondents (52%) report mentoring contractors to ensure they will continue to bid on their contracts in the future.

When it comes to using performance incentives in dealing with contractors, managers indicate they are more likely to use sanctions to penalize for performance problems (66%) than they are to use rewards for satisfactory performance (23%).

To gather additional information on the ways in which managers address performance issues, respondents were asked to think of one specific contract that best reflected their experience with unsatisfactory performance. When faced with poor performance, 64 percent of managers surveyed elected to take formal action against the contractor, with the most common responses being financial sanctions or contract termination. (See Figure 4).

Finally, the ways in which managers reported measuring contract performance varied significantly. Managers report that contractors tend to fall short in performance primarily in the areas of responsiveness, quality and service continuity (See Figure 5).

It is clear that performance problems do not generally take long to emerge; 78 percent of managers agree that performance issues appear near the beginning or midway through the contract. Managers also indicate that in many cases, their organization was highly dependent on the contractor that was failing to meet performance thresholds. More than half (56%) state that their organization did not have the technical expertise to provide the service in-house and 79 percent did not have the resources to provide service in-house.

These survey results suggest that when municipal leaders are forced to privatize city services, most place a strong emphasis on developing, enhancing and ensuring contractor performance. Whether that's through developing strong relationships, creating vendor competition, or holding contractors accountable, city leaders are generally aware that merely shipping responsibility outside of government ultimately will not improve public service.

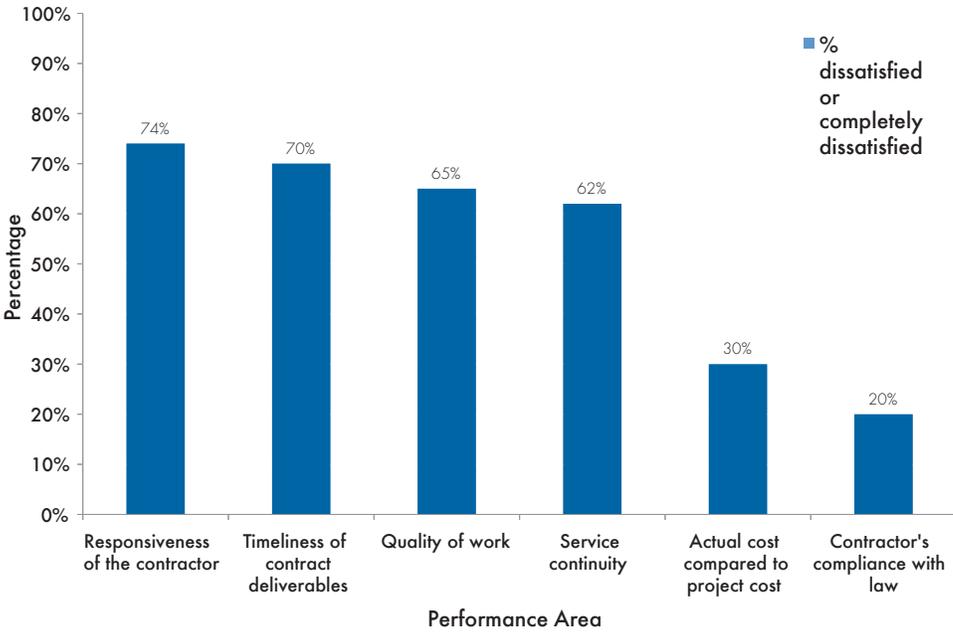


Figure 5: Satisfaction with Contractor Performance

ABOUT THE SURVEY

The survey was sent to 2,195 city officials across the U.S., including 487 randomly selected city managers and 1,708 functional specialists who were primarily department directors and their representatives from building inspection services, human services, information technology, parks and recreation and public works. The survey was conducted from July to November 2009. Results are drawn from 332 respondents for a response rate of 15%. With this response rate, it is expected with a 95% degree of confidence (i.e., in 95 out of 100 random sample surveys) that if another random sample of municipal officials completed the survey, response results would be within 4.96 percentage points (+/- 4.96%) of the results reported here. Survey response rates based on population and region of the country are provided in the following tables (See Figures 6 and 7).

Figure 6: Regional Representation

REGION	NUMBER	PERCENT OF RESPONDENTS	PERCENT OF SAMPLE FRAME
Northeast	21	6%	10%
Midwest	71	12%	22%
South	113	34%	35%
West	127	38%	33%

Figure 7: Population Representation

POPULATION	NUMBER	PERCENT OF RESPONDENTS	PERCENT OF SAMPLE FRAME	PERCENT OF TOTAL CITIES
25,000-49,999	101	30%	45%	16%
50,000-99,999	94	28%	29%	26%
100,000-299,999	96	29%	17%	41%
300,000<	41	12%	9%	71%

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ABOUT THE NATIONAL LEAGUE OF CITIES

The National League of Cities is the nation's oldest and largest organization devoted to strengthening and promoting cities as centers of opportunity, leadership and governance. NLC is a resource and advocate for more than 1,600 member cities and the 49 state municipal leagues, representing 19,000 cities and towns and more than 218 million Americans.

Through its Center for Research and Innovation, NLC provides research and analysis on key topics and trends important to cities, creative solutions to improve quality of life in communities, inspiration and ideas for local officials to use in tackling tough issues, and opportunities for city leaders to connect with peers, share experiences, and learn about innovative approaches in cities.