

Title:	<b>Privatization Policy</b>	
Purpose:	City agencies shall consider privatizing government service as a management tool to increase government efficiency.	
Issued by:	Labor Relations and Training	Date: February 15, 2005
References:	Act 90 Session Laws of Hawaii, Twenty-First Legislature, 2001 (Note: Act 90 shall be repealed on June 30, 2007) Circular No. 1-03 (1-16-03)	

## I. **POLICY**

City departments and agencies may enter into a contract financed by public funds when there is a reasonable basis to believe that a private entity could provide equivalent or better quality services at a lower cost. All new or existing contracts (that are re-bid) for services, including services contained in conjunction with procurement of goods and construction shall be subject to this review process.

## II. **PRIVATIZATION STANDARDS AND DETERMINATION**

Departments shall review and assess the following when deciding to privatize City services:

- A. Whether contracting with a private entity will jeopardize the City's ability to provide the service if the private entity fails to perform, or the contract becomes unprofitable or impossible for a private entity to perform.
- B. Whether contracting with a private entity will impact on any civil service employees.
- C. Whether contracting with a private entity will affect the nature of the service the agency needs including whether:
  - 1. The service is self-contained or part of a larger service delivery system;
  - 2. The service is geographically dispersed;
  - 3. The service is a core or ancillary government service and if in-house resources are available or needed;
  - 4. Government control is necessary;
  - 5. Government accountability can be shared; and
  - 6. Governmental authority will be diluted.
- D. Whether contracting with a private entity will increase the potential for achieving cost savings including:
  - 1. The need to abandon or repurchase capital improvements or equipment that are not fully depreciated;

2. The extent to which the service is available in the private sector marketplace; and
  3. The extent to which federal or state restrictions may reduce private sector interest in providing or performing the needed or required service.
- E. Whether contracting with a private entity will affect the extent to which the services are needed or required, and how the criteria to select a service provider can be described in objective specifications.

### III. **EMPLOYEE DISPLACEMENTS**

Any employee displaced from their current position as a result of privatization may be subject to the layoff provisions of the civil service law or collective bargaining agreements. Prior to implementing any layoff procedures, departments should explore the following methods to minimize the adverse effects on affected employees:

- A. Coordination with the private service provider to continue a displaced employee's employment as an employee of the contractor.
- B. Reassignment to another civil service position the employee is qualified to fill.
- C. Retraining to qualify the employee for reassignment.
- D. Severance incentives including voluntary separation incentives.

### IV. **DEPARTMENTAL RESPONSIBILITY**

- A. Departments considering privatizing government services including reprocurring existing contracts shall prepare a report and a cost analysis (see attached Privatization of City Services Form and sample cost analysis) to the Directors of Budget and Fiscal Services (BFS) and Human Resources (DHR). Final approval for privatization of any City service shall be granted by the Director of BFS.
- B. Departments that contract similar services (e.g., refuse, custodial, grounds maintenance) shall consult and share cost analysis data with one another in order to maintain consistent cost analysis for like services. The following departments have been identified as "lead" agencies that others should consult with for cost information:

Department	Contract Services
Environmental Services	Refuse
Facility Maintenance	Custodial
Parks and Recreation	Grounds Maintenance

- C. The BFS shall provide fringe and indirect cost rate information.
- D. Departments shall consult with affected unions when privatizing services that may affect existing employees.
- E. Departments who have procured private contracted services shall be responsible for monitoring the performance of the contractor for the duration of the contract period.

**V. ANNUAL REPORTS**

Any City department or agency that privatizes services shall prepare an annual report by December 31 of the calendar year, to the Managing Director, Director of BFS and Director of DHR which shall include:

- A. An itemization of all services that were outsourced or subjected to the processes set out in this policy;
- B. The department's or agency's justification that standards for determination were met;
- C. The cost of services obtained through the process set out in this policy;
- D. A copy of all contracts entered into under this policy; and
- E. An accounting of civil service employees displaced as a consequence of this policy and a summary of placement efforts pursuant to II. above.

## Privatization of City Services Form

### Part I

Department/Division

Requesting Privatization of Services: \_\_\_\_\_

Contact Person and Phone No. \_\_\_\_\_

Specific and detailed description/location of services to be privatized:

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Does this determination involve:  services that have not been contracted out previously;  
 a previous contract that is being repro cured; or  
 other \_\_\_\_\_

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### Part II Privatization Determination

1. Will contracting with a private entity jeopardize the City's ability to provide service if:

a. The contractor fails to perform

Yes \_\_\_\_\_  
\_\_\_\_\_

No \_\_\_\_\_  
\_\_\_\_\_

If no, check if applicable:

sufficient vendors available to re-bid contract  
 contractual remedies available against defaulting contractor  
 other \_\_\_\_\_  
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- b. The contract becomes unprofitable or impossible for the private entity to perform

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2. Will contracting with a private entity impact on civil service employees? [ ] Yes [ ] No

- a. If yes, indicate number, type and bargaining units of employees who will be displaced:

Nature of Work	Job Title	Bargaining Unit	Number of Employees

- b. If yes, are placement alternatives available within the department for affected employees? List all positions that may be potential placement alternatives.

Nature of Work	Job Title	Bargaining Unit	Number of Vacancies

3. Will contracting with a private entity affect the nature of the service the agency needs, including whether:

- a. The service is self-contained (not a part of a larger service delivery system).

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- b. The service is geographically dispersed?

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c. Is the service a core government service?

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d. In-house resources are available or needed?

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e. Government control is necessary?

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f. Government accountability can be shared?

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g. Government authority will be diluted?

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4. Will contracting with a private entity increase the potential for achieving cost savings, including:

a. Need to purchase capital improvements or equipment?

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Need to abandon or repurchase capital improvements/equipment not fully depreciated?

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b. Extent to which service is available in the private sector marketplace.

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c. Extent to which federal or state restrictions may reduce private sector interest in providing or performing the needed or required service.

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5. Will contracting with a private entity affect the extent to which the services are needed or required?

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6. Can the criteria to select a service provider be described in objective specifications?

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7. Cost Analysis

I. Labor Costs

Costs for in-house salaries and fringe benefits for past two (2) fiscal years.

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II. Other Labor Costs

Note: Line 11 – Labor Fringe factor available from BFS – Accounting.

Indirect costs. Labor costs divided by total labor costs for the division and department multiplied by the total administrative costs allocated to the division/department. (Includes division/department administrative costs and Control Administrative Services Expense.)

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III. Existing costs for current expenses and equipment, vehicle/maintenance for past two (2) fiscal years.

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IV. Equipment Lease/Rent, Vehicle Maintenance

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