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Extreme Outsourcing in Local Government: At the Top and All But the Top

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ABSTRACT

The prevailing paradigm of outsourcing in local government assumes high-level professional administrators make systematic assessments of program areas to determine whether a selected number could be delivered for a reduced cost and at a higher quality by an external provider. This article examines two fundamental deviations from this model occurring in local governments. First, a handful of newly incorporated cities have adopted a wholesale approach to contracting out, relying almost exclusively on private firms and other governmental jurisdictions for the production of core programs while employing only a handful of in-house staff. Conversely, several small towns and cities across North Carolina deliver most services and programs in house by permanent staff but contract out the highest-level administrative position, that of town or city manager. These strategies represent outsourcing at its most extreme and present important practical and paradigmatic challenges to public human resource management in contemporary subnational governance.

Local governments are experimenting with models of outsourcing that push the approach to its outermost limits. Notably, the new city of Sandy Springs, Georgia, has contracted with a private sector service provider and other local governments to deliver most core functions and programs while employing only a handful of in-house staff. Conversely, several small towns and cities across North Carolina deliver the majority of services and programs by permanent staff, but the manager's position is hired and retained indefinitely on a contractual basis. Although researchers disagree as to whether small cities (Savas, 2005, p. 44) or larger municipalities (Moon & deLeon, 2001) are more likely to experiment with outsourcing, this study presents evidence that local governments of all sizes are fulfilling their promise as laboratories of democracy.

OUTSOURCING, CONTRACTING OUT, AND PRIVATIZATION

Despite a lack of conceptual clarity on precisely what it is (Stark, 2002), the notion of the "new public management" generally calls for a shrinking and/or "rightsizing" of the size of the public sector, the adoption of market-based principles, and the shedding of governmental responsibilities and programs to the private and nonprofit sectors (Savas, 2005; Warner & Hefetz, 2008; L. R. Wise, 2002). In addition to calls for focusing on core objectives and the utilization of outside expertise and specialized knowledge, proponents typically rely on public choice theory to argue that government-centered program delivery is inherently less efficient and effective and should therefore be privatized to the greatest degree possible (Hodge, 2000, p. 25). Among the many reasons cited for privatizing governmental services, the most pertinent to this study are where government does not have the necessary expertise, experience, or equipment to deliver a given service; performance can be specified in advance and validly measured; costs can be minimized via economies of scale; numerous potential vendors can provide real competition; and effective contract oversight can be maintained (Cooper, 2003; Savas, 2005).

The notions of "privatization" on one hand and "outsourcing" and "contracting out" on the other have much in common, but they are conceptually distinct. Both involve the purchasing of services by a government entity from another governmental unit, a nonprofit organization, or a private firm. However, privatization implies that a function previously produced by government directly is now delivered by a private sector or nonprofit organization (see Fernandez & Smith, 2005). For the local governments discussed herein, there is no history of direct government production; thus, "privatization" is an awkward fit. These local governments are newly incorporated and consequently have a proverbial blank slate on which to craft an entrepreneurial governing strategy (Teske & Schneider, 1994). These jurisdictions lack in-house expertise because all services are new, they are blessed or saddled with across-theboard decisions as to whether to make services internally or to buy services externally, and there are no current employees to be angered or displaced (Fernandez & Smith, 2005; Fernandez, Smith, & Wenger, 2006; Nelson, 1997; Savas, 2005; Warner & Hefetz, 2008). As a result, "outsourcing" and "contracting out" are a much cleaner fit than "privatization" and are used interchangeably to describe the innovative strategies employed by local governments analyzed in this study.

Another important distinction must be made between service provision and service production (Kolderie, 1986). The former refers to the financing of a service, whereas the latter represents the actual delivery of a service or creation of a product, which can be done in-house or contracted out (Brooks, 2004, p. 469). In an outsourcing arrangement, the governmental unit provides the necessary resources, that is, service provision, for the contractor to produce the service. Such an arrangement necessarily alters the traditional hierarchical model of command and control. Although the decision to contract out is made internally via the vertical decision-making process so familiar to students and practitioners of government, Cooper (2003) observed that "contracts in the business world, by contrast, operate on a horizontal model, based not on authority but on a foundation of negotiations" (p. 12). This tension requires public managers to operate both in the traditional hierarchy and in the new network model established when a government relies on outside parties for service production (Dudley, 2003, p. 439).

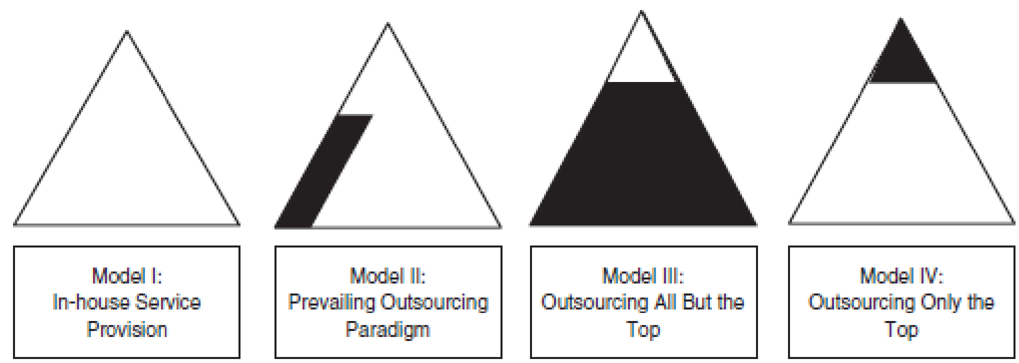
Governments interested in outsourcing the production of goods or services have numerous options in terms of the nature of the relationship with the contractor. Although scholars offer varying menus of options, Brooks (2004) identified complete privatization, privatization of operations, franchising, open competition, and contracting out (p. 470). The final category, contracting out, is most pertinent to the contexts analyzed in this article, and it is described as "when a private sector firm enters into a contract with a government unit to produce a particular service" (Brooks, 2004, p. 472). This definition is perhaps too narrow, as governmental units can contract with a nonprofit organization or another governmental unit just the same. Scholars of local government, in particular, have identified a subcategory of contracting out called *interjurisdictional*, or *intergovernmental*, agreements. These agreements typically consist of "interlocal service contracts between two or more units of government in which one pays the other for the delivery of the service to the residents of the jurisdiction of the paying government" (McGuire, 2004, p. 193). Such arrangements promote expediency, practicality, and familiarity, perhaps at the expense of programmatic efficiency and innovation, as the paying governmental unit potentially imports any maladies affecting the providing unit's program (Brown, Potoski, & Van Slyke, 2006, p. 327; also see Marvel & Marvel, 2007; Thurmaier & Wood, 2002; Warner & Hebdon, 2001).

Nevertheless, the contracting out of services has become a common strategy for local governments because of concerns for practicality and as an ideological preference (Johnston & Seidenstat, 2007, p. 238). Proponents point to the cost savings that are expected to occur when the efficiencies of the market are brought to bear on the provision of services previously provided by government. Such gains in efficiency result from private sector competition, economies of scale, and the profit motive (Brooks, 2004). Despite contradictory evidence as to cost savings realized through privatization, the practice continues unabated, increasingly because of practical and political pressures (Boyne, 1998; Brudney, Fernandez, Ryu, & Wright, 2005; Savas, 2005).

Such arguments have proven to be most compelling at the local government level, where "the assumption of discrete service domain is more likely to be met than at state and national levels" (C. R. Wise, 1990, p. 144). Reviews of the extant empirical research on local governments have suggested that "virtually every public service is now considered a candidate for privatization" (Sclar, 2001, p. 11; also see Brooks, 2004; Brown et al., 2006). Using survey data from the International City/County

Management Association, Greene (2002) identified 59 discrete municipal services that have been outsourced. Notably absent, for the purposes of this article, are the contracting out of the county or municipal manager function and a dedicated discussion of municipalities that primarily rely on outsourcing for the provision of most or all services.

Figure 1
The Prevailing Outsourcing and Two New Models



These two types of extreme outsourcing challenge the outermost limits of the prevailing contracting out paradigm and present new challenges for human resource management in local government. Model I, in Figure 1, depicts a governmental unit that solely relies on in-house resources for both service provision and production (Kolderie, 1986). The prevailing concept of outsourcing is represented by Model II, where a subset of services is produced by an outside party, but most services are produced in house. This model acknowledges both the potential and limits, whether real or perceived, of the outsourcing paradigm (see Hodge, 2000, p. 30; Osborne & Gaebler, 1993, p. 45). The last two models depict the new approaches to outsourcing that are examined in this article. The notion that all government services can be produced via a contractual relationship by the private sector, nonprofit organizations, and other governmental jurisdictions is represented in Model III. Conversely, Model IV illustrates a dynamic whereby a local government retains all service production in house, with the notable exception of the city or town manager, who is retained indefinitely on a contractual basis.

METHOD

The forthcoming descriptions and discussions of radical outsourcing in local governments rely on the case study method to discover how and why the municipalities have reinvented the strategy of contracting out. Numerous and varied resources have been used, such as interviews with local government professionals, minutes from council meetings, annual reports, budget documents, personal memoirs, newspaper coverage, professional publications, and academic resources, to describe these innovations and experiments (see Patton, 2002; Yin, 2003).

OUTSOURCING ALL BUT THE TOP

A small handful of municipalities across the country have opted to retain only a skeleton in-house staff of top management and immediate administrative support positions and have outsourced the provision of most functions and services to private firms and other governmental jurisdictions. Such arrangements seemingly fulfill the notion of the “ideal city” for advocates of privatization, “a city without traditional operating departments” because “services that can be returned to the market are discontinued from public provision” so that “all basic services are available to citizens but are provided by private firms,” and “City Hall primarily performs administrative functions” related to contract management and revenue collection (Greene, 2002, p. 23). The cities of Weston, Florida, Centennial, Colorado, and, most recently, Sandy Springs, Georgia, represent exemplars of such municipal outsourcing. They share two notable characteristics: The preponderance of city services are contracted out and the decision to be a “contract city” was made at the time of incorporation.

Weston—The Model Contract City

Incorporated in 1996, the City of Weston, Florida, encompasses nearly 26 square miles and immediately served approximately 60,000 residents with only three in-house employees (Prager, 2008). Weston is one of the more affluent communities in Broward County, with a median household income of more than $83,000 and an unemployment rate of only approximately 2.0% (City of Weston, 2006). Related, the city has one of the lowest property tax rates in the area, in no small part because of the outsourcing of all major services and programs to private firms and via interjurisdictional agreements (City of Weston, 2008).

The decision to become a contract city was based on both practicality and ideology. All new cities face the practical dilemma of “how to provide the desired level of services without expending at the outset the vast financial resources needed to acquire the infrastructure of municipal service provision” (Prager, 2008, p. 167). Rather than make the necessary infrastructure and capital investments, the residents of Weston had an “overwhelming desire” to pursue a contractual form of government (City of Weston, 2008, p. 44). This ideological commitment manifested in a personnel balance of 262 contracted employees and only 3 in-house staff in 2007 for a government with a budget of more than $107 million (City of Weston, 2008, pp. 9, 19). Such a staffing arrangement afforded the city manager complete flexibility to remove most any worker from Weston, often without having to show cause. With such flexibility, however, comes a heightened urgency to exhibit high-quality contract management skills (Cohen & Eimicke, 2008).

In terms of function areas, Weston has privatized the city attorney, solid waste collection, all aspects of information technology, building inspection, planning and engineering, recreation management, and a multitude of services related to general administration such as administrative, finance, community services, staffing, and public information functions. The city has an intergovernmental agreement with the City of Sunrise for water and sewer services, and it contracts with Broward County for fire protection, policing, and emergency medical services. Public schools are county government functions in Florida, but Weston has outsourced school crossing guard services (City of Weston, 2008, p. 80). Notably absent from the list of services are electric and gas utilities and the usual array of public health and social services, thereby allowing the city to avoid the financial, managerial, and political challenges associated with such contentious programs (Prager, 2008, p. 172).

As most cities have experienced significant growth in staff size in recent years, the number of in-house staff for the city tripled in 2008. A number of the larger contracts expired, and the city used this opportunity to "look sharply at *all* aspects of budget spending" and determined that it was most efficient to expand the cadre of upper-level management (City of Weston, 2008, p. 9). Notably, the lack of backup in-house production capability meant that "continuous monitoring is a sine qua non of Weston's contracting framework" (Prager, 2008, p. 176). Thus, the city converted six positions from contract to in house: directors of communications, landscape maintenance, parks and recreation, and public works and a treasurer and a second assistant city manager who serves as the chief operating officer. The expanded group of managers shares the responsibilities of contract negotiation and oversight, thereby enhancing in-house capabilities related to outsourcing. Previously, the general administration contractor also provided negotiation and oversight for the city's other contracts (i.e., Weston had contracted out contract management), but this function was brought in house with the expansion of the management team (director of communications, personal communication, March 13, 2008). Another significant consequence of the expiration of the general administration contract was the decision to separate the subsequent contract into two parts and severing the relationship with the previous contractor, Severn Trent Environmental Services. These reforms suggest that the ideological impetus of the contact city model must remain flexible in the face of the inevitable pressures to retain in-house expertise when putting the model into practice. As argued by Warner and Hebdon (2001), for local governments experimenting with outsourcing, "pragmatism wins out over politics," and ideology cedes to the prioritization of service quality (p. 316).

Centennial—The Virtual City

It is not surprising that the Weston model was hailed by those who are predisposed ideologically to believe that a government-centered approach for municipalities is both less efficient and less effective. Indeed, the model was copied in 2000 by the newly created city of Centennial, Colorado, which became the largest "city-fromscratch" in American history, with more than 104,000 residents inhabiting 36 square miles outside of Denver (Conte, 2001; Greenblatt, 2006). The incorporation movement was spurred by the proposed annexation of valuable commercial areas by the neighboring municipality of Greenwood Village, exposing residents to the potential for tax increases to make up for lost county revenue (Johnston & Seidenstat, 2007). But Centennial is a self-described "virtual city," as it has fewer than 30 employees, with no city hall, and contracts out the preponderance of services (Conte, 2001). By comparison, cities with comparable populations often employ upward of 700 in-house personnel to provide the full range of municipal services.

Obvious challenges associated with the contract city model have been manifested in Centennial, including concerns over the number of available and interested bidders for larger contract offerings, citizens pressuring for new or expanded services, and macro problems such as aging infrastructure and maintaining a consistent revenue base (Conte, 2001). Because the contract city approach prioritizes reduced costs and higher quality, such problems confound city leaders, as they look to stay true to the outsourcing model while meeting the public's demands for services.

Recently, concerns that the county's bureaucracy hinders optimal performance have strained relations between the city and Arapahoe County (Johnston & Seidenstat, 2007). Having already shifted the planning, building, and zoning functions from an interjurisdictional agreement with the county to the use of a private firm, Centennial is currently in the process of turning to the private sector for the provision of public works (Johnston & Seidenstat, 2007, p. 244). The city currently pays the county $14.1 million annually for public works but recently issued a call for Statements of Qualifications from potential bidders (City of Centennial, 2007b). Reminiscent of the recent reforms in Weston, Centennial is considering expanding its managerial ranks to include an in-house public works director to oversee the future contractual arrangement. It is important to note, however, that city–county relations are not all sour. In January 2008, Centennial renewed its contract with the county sheriff to provide a full range of public safety services for the next 10 years at an annual cost of $19.5 million (City of Centennial, 2008).
In a different policy arena, the city is also considering creating three new positions to bring land use planning and GIS database management in house (City of Centennial, 2007a). In addition, a new contract was proposed that would cover the actual performance of planning and engineering, GIS systems, and long-range planning services. It is interesting that city council members commented that the city should look to bring all outsourced services in house as a means of comparison and to ensure that outsourcing is indeed the best option. It is clear that running a contract city, even a virtual one such as Centennial, is no simple endeavor (C. R. Wise, 1990).

Sandy Springs—The 21st-Century Paradigm?

In the words of the city's first manager, "It all began with a visit to Weston" (Porter, 2006, p. 11).1 A more recent case of a newly incorporated municipality's opting to be a contract city is Sandy Springs, Georgia. Incorporated in 2005, the city instantly became the seventh largest in the state, serving more than 90,000 residents and encompassing an affluent 37-square-mile area that borders the City of Atlanta in northern Fulton County (City of Sandy Springs, 2006a). Breaking a 50-year drought for the incorporation of new cities in the state, the leadership of Sandy Springs was given only 6 months to set up a new municipal government.

Although the city did have a proverbial blank slate on which to decide whether to make or buy nearly all municipal services, the compressed time frame placed a premium on practicality and innovation. Four service delivery options were considered: create and staff in-house programs, contract with the county, contract with other municipalities, and/or contract with a private firm. City leaders estimated that more than 700 employees would be needed to deliver all services in-house and more than 100 if intergovernmental agreements were primarily relied on (Porter, 2006, p. 71). Ultimately, Sandy Springs adopted a mixed-delivery strategy whereby all four options are utilized. Currently, the city directly provides police, fire, courts, and the city attorney. Intergovernmental agreements with Fulton County are in place for Emergency 911, revenue collection, special election operations, and animal control services, although the transfer of ownership of park lands and fire stations has been contentious (City of Sandy Springs, 2007c; Porter, 2006). The city also contracts with other municipalities for the operation of jails, libraries, and water pumping stations and the use of an Atlanta police station located immediately outside the new border of Sandy Springs (City of Sandy Springs, 2006b, 2007a, 2007b). Most notably, the city entered into a combined $55 million contract for the first 2 years with CH2M Hill, a private full-service engineering, construction, and operations firm, to provide the remainder of the city's operations and services, a figure that is roughly half of what city residents had been contributing to the county for similar services (Porter, 2006, p. 147). A study conducted by the Carl Vinson Institute of Government at the University of Georgia estimated these arrangements saved the city $20 million per year "as compared with traditional municipal management" (City of Sandy Springs, 2006a, p. 37). Nonetheless, the CH2M Hill contract represented more than half of the city's first year budget, and, when the expenses related to interjurisdictional agreements were factored in, less than 10% of the budget was for non-contract-related expenditures (Porter, 2006, pp. 61-62). With all this complexity in service production, the city was fully operational in early 2006 with only four in-house administrative employees: city manager, deputy city manager, city clerk, and clerk of court (Porter, 2006, p. 72).

In addition to the standard selling points of outsourcing based on efficiency and effectiveness, the compressed time frame for incorporation made the outsourcing option the most practical and appealing option for the leadership of Sandy Springs. In addition to numerous partnerships with neighboring municipalities and the county, city leaders concluded that contracting with the private sector was the only solution to their practical, and very urgent, dilemma. Sandy Springs eventually awarded two extensive, 6-year contracts to CH2M Hill. The first contract covers administrative, financial, community services, motor vehicle, staffing, purchasing, procurement, and contracting services (Porter, 2006, p. 313). The second contract relates to services deemed more technical in nature, such as public works, transportation, streets, right-of-way, facilities, parks and recreation, capital improvements, planning and zoning, inspections, code enforcement, permitting, purchasing, and procurement (Porter, 2006, p. 367). It is interesting that city leaders shifted the burden to bidders, and ultimately to CH2M Hill, to determine measures of service such that the vendors had to define the level of service they could provide (Porter, 2006, p. 126). This strategy relieved the city of one of the most onerous aspects of drafting requests for proposals (RFPs) and provided clear criteria for comparing competing bids. Conversely, the expansive scope of the two RFPs severely constrained the competition as evidenced by the fact that CH2M Hill was the only bidder for the first RFP and one of only three for the second. Concerns over turning such a large proportion of services over to one provider were immediately raised and debated, but ultimately practical urgency and a pervasive spirit of cooperation prevailed (Porter, 2006, p. 144). Furthermore, the city manager reserved the right to terminate both the contract itself and key company personnel without cause (Porter, 2006, p. 146).

Although CH2M Hill is the principal contractor for each of the two contracts, it has, in turn, partnered with a number of subcontractors to help provide specialized services. Indeed, this "mating" was initiated prior to formal bidding, such that a network of providers was in place on the formal signing of the contracts. One unanticipated consequence of this complex service delivery network was the need for the city to remove the top-level finance responsibilities from the contract and create an in-house position of finance director to eliminate perceived conflicts of interest over financial matters (City of Sandy Springs, 2006b).

A notable aspect of the financial characteristics of the contract is that the city opted for a “fixed cost” financial arrangement. This strategy provided stability to the city’s budget, particularly in its first year, and was appealing because the bid price was far below what the city estimated that any other service alternative would have cost. In that context, city leaders actually “hoped” that CH2M Hill would make a profit on the contracts so the contractor would be a willing and productive long-term partner (Porter, 2006, p. 146). Related, the city estimated that the economy of scale of having one principal contractor for the two contracts saved more than $4.5 million in the first 2 years (Porter, 2006, p. 147).

It is clear that the contract city approach of Weston, Centennial, and Sandy Springs pushes the outsourcing model to one extreme. As seen in Figure 1, the opposite extreme approach to outsourcing is occurring in small municipalities in North Carolina.

OUTSOURCING THE TOP

The dominant paradigm of outsourcing assumes “public managers decide to use contractors to perform services or provide materials” (Cooper, 2003, p. xiv). Thus, the decision to outsource presumes the existence of a high-level professional administrator who makes an informed assessment that certain governmental services could be delivered for a reduced cost and higher quality by an external provider. But what happens when a governmental unit outsources the highest administrative office? This type of extreme contracting out is occurring in small towns and cities in North Carolina where local officials rely on a contractual relationship for the provision of the city manager’s office.

A number of town and city governments in North Carolina are indefinitely retaining their manager on a contract basis, as a strategy for dealing with the challenges of small budgets and high citizen expectations for service. This trend takes one of two forms. In some cases, a firm hires newly minted master’s in public administration (MPA) graduates and places them with local government clients on a part-time basis. This relationship can act as a pseudo-probationary period for the inexperienced manager and can fulfill the managerial function for a small municipality that cannot afford a full-time manager. At the other end of the experiential range, retired managers are being retained by their previous employer at a reduced rate to provide continuity and realize cost savings.

The Municipal Manager

The local government manager is the chief executive officer of a given jurisdiction who maintains political neutrality while keeping the municipality running smoothly and efficiently. As stated by Newell and Ammons (1995),

> The council-manager form of government was introduced in part to secure expert administration through the appointment of a chief executive with requisite managerial skills. The assumption at the outset was that the city manger would devote attention to the management function, generally refraining from policy or political involvement. (p. 97)

Their analysis revealed, however, that managers perform both administrative and policy-related roles. Thus, an appointed city or town manager is responsible for keeping the governmental unit effective, cohesive, and responsive to the public interest by efficiently allocating public resources in a manner that complements the politically accountable governing board. The manager must balance the requests of the governing board with the public interest as he or she proceeds with the implementation of policy determined, at least formally, by the local legislative body. This balancing act is significantly complicated when the manager is a contract, rather than a full-time, in-house, administrator because of the uncertain nature of the contract manager's long-term commitment and loyalty to the community.

Retirement of Baby Boomers—Demand for New Managers

A significant demand is building for public managers in North Carolina and indeed in the entire public sector because of the looming mass retirement of the baby boomer generation (Lavigna, 2008). The expectation is that a large portion of the current public manager pool will retire during the coming decade, fueling an intensified demand for replacements. Consequently, professional groups such as the International City/County Management Association have begun to discuss appropriate solutions to the demand problem. At the state level, the North Carolina City/County Managers Association established a committee to evaluate and make recommendations regarding the "next generation" issue. In its report, the committee recommended implementing a mentoring program for younger managers, using retired managers to help bridge the gap caused by the imbalance in the supply and demand of city and county managers, and seeking legislation to permit retired local government employees to work on an interim basis after retirement (Westbrook, DeHoog, & Larking, 2005).

Outsourcing the Manager's Office

Much like the contract city model, the outsourcing of the manager's office implicates the core question of whether certain functions are distinctly public in nature and must remain in house for the public interest to be truly served. Peters (1996) suggested a function that is distinctly public is policy advice and the dissemination of that advice to ministers. Although a certain amount of policy advice has been outsourced in almost all political systems,

> governments have retained a dominant in-house capacity to sift through the outside advice and then generate directions to ministers. Should that function be contracted out to the private sector, or is it sufficiently vested with the public interest that it should remain a governmental activity? (Peters, 1996, p. 40)

The manager's function is that "dominant in-house capacity" that local governments have always retained in house, even in contract cities such as Weston and Sandy Springs. The managerial function also requires a high degree of transparency to ensure accountability to the legislature and the people, transparency that can be threatened when a contracted manager maintains both professional public responsibility and a private individual interest (see Rubin, 2006).

Contracting Out to the Inexperienced Manager

A number of local governments in North Carolina are just now implementing the manager form of government, which is exacerbating the demand for professional administrators. Many of these small towns cannot afford a full-time administrator but still desire a professional who is aware of the local government landscape to perform the managerial function. These local governments are often cautious and want to feel out the transition to determine whether the administrator model will work for their local government. Such governments are often reluctant to hire new MPA graduates with no experience because of the complicated issues related to finances, intergovernmental relations, utilities, economic development, and so on (see Folz & French, 2005). These factors contribute to an environment where local governments are willing to consider new service delivery options, notably the use of a private contractor, to fulfill the managerial role.

Several private management firms operated by former local government professionals with considerable managerial experience are positioning to meet this expanding demand. These firms place recent graduates with small municipalities and act as a liaison between the new manager and the client government. The towns may receive management services on a part-time or full-time basis. Thus, a contracted management employee for a private firm may work a few days for one municipality and then work the other days of the week at another location. In terms of payment, the towns receiving management services pay the private firm directly, which in turn remunerates the liaison.

One goal for the liaison may be to assist the client government in getting to a point where it can afford a full-time manager. A significant part of the job is to get policies, procedures, personnel matters, budgetary concerns, and other key aspects of the administrator function into line so the government is better positioned to eventually retain an in-house administrator or manager.

Clients typically have limited choice in terms of which manager they work with, but cooperation between the contractor and the town board is of paramount concern. Governing boards are more likely to accept new graduates in this manner as, to date, at least the following eight relatively small towns and cities in North Carolina have utilized privatized public management services: Bethel, Catawba, Jonesville, Mount

Gilead, Mount Pleasant, Pleasant Garden, Troy, and Walnut Grove. No systematic assessment of outcomes can be conducted, as the outsourcing experiment is less than 2 years old for these municipalities. Nevertheless, interviews revealed that the leaderships are generally pleased with the performance of the contracted manager, and a number of cities have hired the contractor on a permanent, in-house basis (see Hefetz & Warner, 2004; Warner & Hebdon, 2001).

Contracting Out to the Experienced Manager

The outsourcing of local government management is also occurring at the opposite end of the experiential range. Retired managers are being reemployed by local governments in North Carolina that are witnessing a shortage of available, qualified candidates seeking a city or county management position. Cities such as Kitty Hawk, Shelby, Lexington, McAddenville, and Gastonia have rehired their recently retired managers on an indefinite basis. This represents a second strategy for addressing the next generation challenge.

The most obvious obstacle for the retired manager to continue serving on a contracted basis are North Carolina State Retirement System rules that require retired managers to defer their state retirement benefits to become reemployed by a local government. This strategy has led to calls to loosen prohibitions against “double dipping,” which occurs when a retired government employee is eligible and receives state retirement benefits and then reemploys to work so as to reap two paychecks: one from the pension plan and the other from the reemployment.

Legally, retired managers who are rehired on a contract basis are limited in terms of dollars they may earn or hours they can work. They may earn no more than half of their salary prior to their retirement and work no more than 1,000 hours in a 12-month period. Several retired managers have exploited a loophole in the pension rules by creating and operating limited liability corporations and contracting with a local government to provide managerial services.

Benefits and Drawbacks of Outsourcing at the Top

Many benefits can be realized by using a contracted public manager. Smaller towns are getting a higher level of service and combined experience than they would otherwise be able to afford without contracting out their management function. The networking of experiences in various communities has a multiplier effect on the skill set needed to efficiently run a local government. In terms of developing a more skilled government workforce, privatizing public management offers an opportunity to leverage greater experience at the top, which in turn could foster better systems and training for local government employees overall.

The outsourcing model offers one potential solution to the succession and next generation problems. Young managers, as well as the client governments, benefit from this type of system, as they are able to sample the administrator form of government and evaluate a particular individual prior to making any full-blown commitment. Often, a local government will find a contracted manager is able to perform quite well, and the government will make an offer of permanent employment to the individual. In essence, the private firm provides not only management services but also an incubator or job placement firm for new graduates. At the other end of the career scale, local governments benefit from the wisdom and experience of a seasoned manager, at reduced cost, and buy time to implement the succession plan to find a permanent replacement.

Such benefits of the outsourcing model are counterbalanced by apparent risks. Respondents consistently noted that it is probably not helpful for units of government or the individual manager to contract out the management function on a permanent basis. Long-term contracts might bind parties beyond the benefits offered in the outsourcing model, such as innovative solutions and decision making (Bloomfield, 2006). Another concern is the inherent risk for conflicts of interest, especially in the private firm approach, as the contracted manager represents both the firm and the client government on the job. Although the presence of contracted workers in the public workplace is increasingly common, the consequences of having an employee in the very top management position who serves both a private and a public master are slowly coming to light. In addition, many new contract managers work part-time in multiple jurisdictions within the same region of the state, and it is conceivable that, in the ever-present battles for resources, investment, and reputation, the interests of those client governments could collide.

DISCUSSION

Modern public administration exists within a postprivatization era, and public officials must take careful stock of which programs to keep in house and which to outsource (C. R. Wise, 1990). Among the many criteria suggested in the literature for how to determine whether a service or program is an appropriate candidate for outsourcing, Kelman's (2002) argument that "the less the activity is core to the agency's mission" is particularly compelling and germane to the case studies discussed herein (pp. 305-308). It is clear that advocates of the council–manager model of local government, for example, envisioned an in-house manager who fulfilled a chiefly administrative role and provided policy advice (Newell & Ammons, 1995). Similarly, the wholesale outsourcing of service provision seen in the contract city model renders the prevailing paradigmatic boundaries of the strategy ingenuous (see Johnston & Seidenstat, 2007). Nevertheless, these experiments with extreme outsourcing are ultimately political decisions made by the elected officials in the municipalities for ideological and, more frequently, practical reasons.

The pervasiveness of outsourcing in local government strongly suggests that contract management has emerged as not only the latest but also a fundamentally unique addition to the traditional skill set and job responsibilities of public managers (Cohen & Eimicke, 2008). With regard to contract specifics, managers must exercise discretion with regard to vendor tasks, outcome measures, vendor qualifications, vendor compensation, payment schedules, contract duration, incentives and sanctions, renewal provisions, and reporting requirements (Brown et al., 2006, p. 327). According to Cooper (2003), these myriad decisions and details do not represent the most challenging aspect of outsourcing, as "the most important difficulties that arise in public contracting happen after the bidding process during contract management" (p. 8). Although all of the contract cities have in-house management talent, they have all expanded their cadre of contract managers since adopting the outsourcing strategy because of the magnitude and importance of contract-related responsibilities. Inevitably, these cities cede core aspects of decision-making capacity and programmatic proficiency to contractors that, in turn, diminish in-house expertise and the quality of oversight (Brown & Potoski, 2004; Brown et al., 2006; Goodsell, 2007; Johnston & Seidenstat, 2007; C. R. Wise, 1990). Similarly, the elected councils in North Carolina have implicitly assumed the challenges associated with contract management by virtue of contracting out the most important administrative position, namely, the manager.

The real and perceived advantages of outsourcing notwithstanding, both strategies discussed herein expose the government unit, and the citizenry, to myriad perils associated with contracting out. Notably, the notion of thin markets relates to the implicit need for real competition among potential buyers for the government unit to realize cost savings and improved service production (see Johnston & Seidenstat, 2007). Although proactive managers have a number of tools available to counteract a thin marketplace (Brown et al., 2006, pp. 326-327), it is not uncommon for only a few firms to have the capacity to produce a particular program or service. Weston, for example, was able to stave off this problem when it found new private partners when the contract with its initial provider expired. Alternatively, the pitfalls of a thin market seemingly manifested for Sandy Springs, as one firm was eventually awarded two contracts, each of considerable complexity and monetary value. Such market dominance by one provider can lead to a second hazard: "a private monopoly substituting for a government monopoly" (Johnston & Seidenstat, 2007, p. 239). This danger is well articulated by C. R. Wise (1990):

When the government is the only buyer and only one or two potential sellers exist, privatizing the activity has little to do with the government organization relating to the private organizations through a network of market controls, and it has everything to do with a monopoly buyer relating to oligopolistic suppliers. As has been painfully learned over the years, "competitive bidding" in such situations does not lead to lowest price and high quality. (pp. 149-150)

Although the relationship between Sandy Springs and CH2M Hill was built on a spirit of collaboration, city leaders acknowledge that "only time will tell whether the partnership will deteriorate into an owner/worker mentality" (Porter, 2006, p. 151). Previous research has affirmed that creating and maintaining a spirit of collaboration, trust, and mutual prosperity are the hallmarks of successful contracting relationships, particularly for large, complex contracts (Fernandez, 2007; Moe, 1987).

Because long-term, complex contracts undermine the benefits of market competition (Sclar, 2001, p. 14), one strategy for overcoming a monopolistic contracting exchange is to break a large contract into smaller parts and encourage subcontracting. This cure may be worse than the disease, however, as managing successive layers of contractors and subcontractors can complicate citizens' dealings with, and comprehension of, government and exacerbate problems of accountability and control (Goodsell, 2007).

Finally, the notion of reversibility, or the extent to which the government can assume or resume service production if the contract relationship proves unsatisfactory, is central in both the "at the top" and the "all but the top" outsourcing strategies.

Most municipalities experimenting with a contracted manager would likely be able to change course to an in-house position without great difficulty. Indeed, several cities have already hired their contracted liaison on a permanent, full-time basis. Reversibility is more vexing for contract cities because the adoption of the strategy at the time of incorporation means that, for many services and programs, there is no in-house expertise or infrastructure on which to fall back. This may expose the cities to a situation where the first contractor holds a distinct advantage versus competing vendors because of a pseudo-monopoly over program expertise (Brown et al., 2006). This can lead to virtually automatic contract renewal, which further erodes the purported advantages of contracting out, as the paying government loses the costand quality-related benefits of market competition.

CONCLUSION

The innovative, and extreme, strategies of contracting out presented in this article are at once fascinating and disconcerting. The contract city model and the contracted manager approach represent the nexus of practicality and ideology but also challenge the basic notion of what is a distinctly public service.

One common thread in the two strategies is that they were applied to newly incorporated municipalities, thereby preventing the sort of before–after cost comparisons conducted in established municipalities, programs, and services (Boyne, 1998; Brudney et al., 2005; Savas, 2005). Similarly, Fernandez, Brudney, and Ryu (2005) employed more than three dozen control variables to predict the extent that a local government relies on contracting out, but the relative newness of the jurisdiction was not accounted for. As seen in the case studies discussed herein, the opportunities that the blank slate of incorporation affords entrepreneurial elected officials and managers strongly suggest that future studies more closely examine the degree of related intransigence of established modes of service production and in-house personnel. The blank slate also complicates the conclusion that “reinvention programs are diffused through the innovation-push mode rather than through the demand-pull mode” (Moon & deLeon, 2001, p. 346). Although this assertion likely holds for Weston, which deliberately and dogmatically pursued an outsourcing strategy, the reliance on contacting out seemed to arise out of practical necessity for Sandy Springs, given its constricted time frame to become operational, and perhaps the municipalities using the contracted manager fall somewhere in between.

Thus, the questions of replication and generalization for established municipalities remain open. Reflecting on his fresh experience in Sandy Springs, Porter (2006) optimistically assumed that any policy area in an existing city “could be opened to private industry without missing a beat” (p. 130). All the city would have to do is broaden its notion of outsourcing’s potential and shed its baggage of “old systems, old methods, old employees that either are not willing, or cannot change” (Porter, 2006, p. 130). Prager (2008) was far less sanguine, arguing in his assessment of Weston that “replication will not be easy,” especially for governments “already committed to a civil service or an organized labor force” (p. 178). Although only further experimentation with contracting out will settle this question, the discussion herein leads to two inexorable conclusions: Contracting out is a prominent, and likely permanent, aspect of local government, and it poses a fundamental challenge to the competencies and capacities of public managers.

NOTE

1. Oliver Porter served as volunteer interim city manager during the process of incorporation for Sandy Springs. His book detailing the incorporation effort and the subsequent contracting out strategy provides invaluable, firsthand insight into the Sandy Springs story and is heavily relied on in this article.

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